



Audit Committee

Minutes of the audit committee meeting held on Wednesday 22nd November 2017 commencing at 9.20am in the SLT Offices at the Otley Campus Otley Suffolk

Present

D Redhead	DR	Independent Member
P Richardson	PR	Independent Member
H Rumsey	HR	External Member
R Sheasby	RS	Independent Member
P Thirkettle	PT	Independent Member
J Whyman	JW	Independent Member and Chair

In Attendance

S Abbass	SA	RSM
N Ackroyd	NA	KPMG
S Beavis	SB	KPMG
R Robson	RR	Director of Governance
J Townsend	JT	Acting Principal
D Wilkinson	DW	Acting Vice Principal/Director of Finance

Observer

Mike Snell	Governance Review
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1 Meeting with Private Auditors

Members of the Committee held a private meeting with the internal auditors (IA's) and external auditors (EA's) to undertake discussion on matters that any of the parties may wish to raise in the absence of College management.

JW noted that due to the inclusion of an emphasis of matter paragraph it was currently being suggested that a late signing and submission of the financial statements and accounts be considered by Corporation. JW sought the thoughts of the IA's and EA's on this point. SB suggested that it would be appropriate for the College to speak to the ESFA before the Corporation made a decision in order to ensure that there would be no adverse impact on the College by a late signing. She further noted that March was the ESFA end of year and that, due to their own regularity audit, they may want all accounts in prior to then. SA expressed the view that if a late signing is being considered then it would be necessary to advise the ESFA of the reason for this. He also queried what the public perception of non-publication when expected would be and that the College may wish to avoid any reputational damage that may follow on from the non-publication. JW noted to those present that an FOI request had been received from Archant in respect of the departure of the previous Principal. RR relayed the content of the FOI request

and confirmed that advice had been sought from Mills and Reeve Solicitors and as a result of that none of the information requested had been disclosed. As yet no formal reaction from Archant to the denial of the request had been received.

JW raised the subject of risk management with IA's and EA's. He noted that the management of risk within the College had been causing great concern to the Committee for a period in excess of the 12 months. He further noted that the College had agreed to engage with RSM for a review of the process and referenced the workshop that had taken place in July with the expectation that senior management would then engage with and embed risk throughout the organisation. He noted that as yet this had not been completed. JW noted that he would be seeking assurance from JT within the meeting that significant progress would be made before the next Committee meeting was held in March. HR enquired of the Auditors how other FE College's dealt with risk management. SA confirmed that unfortunately in many institutions it was seen as an add-on process rather than a process that was embedded in the organisation and became part of day to day activity. Following further discussion members of the Committee confirmed that they were happy to proceed on the basis of the papers contained in those distributed prior to the meeting but would want re-assurance and buy in from JT that embedding of risk management throughout the organisation would now be accelerate.

(JT and MW joined the meeting)

2 Welcome and Apologies for Absence

JW welcomed JT to her first Audit meeting. Apologies were received from Philip Richardson.

3 Declaration of Interest

D Redhead - Tex Holdings Ltd

No other declarations of interest were received in relation to items on this Agenda.

4 Minutes of the Previous Meeting

The Minutes of the Meeting held on 5th July 2017 were reviewed. A typographical error was noted in paragraph 7.1.

Resolved: To approve the Minutes of the Meeting held on 5th July 2017 (subject to the correction of the typographical error) to be signed by the Chair.

Proposed by PT, seconded by RS. **All in Agreement**

5 Actions and Matters Arising

The open action tracker was reviewed.

Action 1 SA confirmed that the work being undertaken with the College concerning risk management would not result in a formal report. However RSM would continue to support the process. **Agreed to**

	remove the Action
Action 2	JT advised that the digital strategy had been to the Staff Consultation Group and would be taken to staff as a whole in December. It was agreed that this would be circulated to members of the Committee. Action Agreed Complete
Action 3	Members suggested they saw little variation in the style of reports received but appreciated that there was a limit to how much information could be removed from the reports without making them less meaningful. HR noted that the summary sheets were improved and it should therefore be easier to identify the relevant information. Action Agreed complete
Action 4	Action Agreed complete
Action 5	JT advised the Committee that it was her intention to re-instate a risk management meeting for the Executive Team after the Christmas and New Year break. The process currently operating in the College with regard to risk management was not one that she was used to. She confirmed that by the time of the March Committee meeting she would have a revised risk register for the Committee to scrutinise. JW sought clarity on the reason for little change following the risk management workshop given to the senior management Team in July by RSM. JT provided contextual information noting that the Executive Team had been together for only twelve weeks and that they had so far had to prepare for the imminently expected Ofsted monitoring visit and the intervention visit from the FE Commissioner. The priority remained the recovery of both quality and finance. To date JT confirmed that she believed these were the right decisions but that she was not in any way dismissing the importance of risk management within the College. At the moment she emphasised that she felt that mitigation of risk of was already taking place through the monitoring and implementation of the CRS and the PIAP; effectively these two documents represented a clear action plan to mitigate the main risk to the College, this being need to achieve a Grade 3 or above at the next full Ofsted inspection. The Chair and the Committee reflected on JT's responses and confirmed that they were pleased to note the importance that she placed on risk management and the assurance that she had given that a revised and up dated risk register would be presented at the next meeting together with confirmation of an up dated process within the College. MW confirmed that all Directors were aware that improvement in risk management was still required. He confirmed that he was having a meeting with RSM in December to take him through the new system that would be implemented. He also confirmed that after strategy day in February risks could be further amended in order to align them with the agreed strategy. A member queried the level of non-engagement within the College and whether this was across College or on one particular campus. MW confirmed that Directors take risk seriously and certainly emphasised that both the Deputy Principal for Curriculum and JT are very keen for this to be moved forward and to

be fit for purpose.

Action 6 & 7 RR confirmed that having consulted colleagues there was little progress to report at this point on the readiness for the GDPR changes. However she was able to confirm that a training session has been arranged for staff and governors on 11th December and thereafter progress should be made. **Action:** RR to progress report on GDPR readiness to be brought to March Committee.

6 Audit Action

MW presented the by exception Report on progress arising from previous audit recommendations. He noted that as yet the report did not include any recommendations from the HE Report as this was on this agenda.

The Committee noted that work was still required to be done in relation to HR related action points. MW confirmed that an additional resource had been brought into support HR for a period of 6 months. He therefore confirmed that he would expect to see action on those points prior to the next meeting. Members were concerned about the wording and suggested progress on actions that implied they were 100% complete but that the Committee felt may not be so. Members queried who checks the responses that individual Directors give on the outstanding action points. It was confirmed that at the present time this is done on trust and not reviewed by the Executive Team. JT confirmed that she needed to check some of the progress stated on the open actions. She also confirmed that in future those actions need to pass through the Executive Team before they come to the Committee to ensure that she can speak to their completeness. Members also raised questions concerning the dates of some comments and whether or not audit trails were complete.

It was **agreed** to leave all action points on the plan to enable further information to be brought to the next meeting.

JW emphasised the need for any Director or Lead with a contentious point on an apparently open action to attend the meeting in order that Committee could raise any queries that it had.

Action: To invite Andrew Daniels, HR Director, to the next meeting.

7.1 HE Report

SA presented the report to the Committee. He noted that this had been a change in reports. The purpose of the report had been to view the control framework of HE in light of the retirement of the Director of HE in summer 2017. The outcome of the report had been one medium action relating to linkage of marketing and the HE strategy and five low level actions. The Chair expressed concern over the nature of the medium action point as the Corporation frequently discussed the need to increase HE numbers as part of the long term recovery of the College. JT advised that leading into the strategy day in February three key areas had been highlighted and stakeholder events were been set up in relation to those, these were HE, land based provision including HE and the Otley Campus. A member expressed concern at the relatively inexperienced team now in College in relation

to HE. SA noted the positive outcome of the report in relation to the control framework in place.

Members considered the leadership of HE and the need to grow HE numbers. MW noted that the College's HE numbers were below those of other similar sized land based College's and that growth of HE was required in order to support the financial recovery of the College. JT expressed concerns on the overall HE provision at the College and the expertise currently in College to expand that provision. She confirmed that she was currently working with the Chair of Corporation on the direction that they would like to take the College. She noted that that evening she, the Deputy Principal and the Chair of Corporation were attending a working dinner with the UEA in order to discuss the strategy moving forward. She was aware that re-structure in HE would be needed.

A member queried how the College was looking to increase the members in HE if the linkage with marketing was an issue. JT noted that the report reflected on what had happened in the previous academic year and confirmed that there had been significant changes in year. She also noted that there would be a need to further re-organise the Marketing Department following current restructuring. JT further advised that a Consultant was being brought on board in order to review the current marketing structure and the College's requirements moving forward.

A member queried whether the going concerns statements assumed growth in HE. MW could confirm that yes part of the strategy was to increase HE numbers.

A member sought confirmation that any impact of restructuring on the marketing department was being managed. JT confirmed that there was an interim plan and that the marketing review would lead to further changes in due course. She noted that marketing needed to be reviewed and aligned with the strategy moving forward. A member queried whether the fact that the strategy event was not taking place until February cause a delay in marketing strategy and have a knock on effect on recruitment for September 2018. JT emphasised that recruitment was proceeding as normal and that she wanted to put back in the Director of HE post in due course. The Chair felt that the discussion had moved to issues that there more relevant to Corporation than to the Committee and suggested that this discussion be taken up there at a later date.

7.2 **Progress Report**

SA presented the Progress Report. He highlighted the agreement to defer the Performance Management Audit until processes have been up dated and were available for a relevant audit in April. JW confirmed that he had supported that decision. Adding the GDPR Readiness Review in April was also noted.

SA drew members' attention to the sector update contained in that report.

7.3 **Annual Report 2016/17**

SA reminded members of the reports that had been undertaken by IA's throughout 16/17. He noted the four categories of assurance that internal auditors gave and advised that most College's fell within the second or third category, the College's opinion fell into the second category. The internal audit opinion received was

noted by members. It was also noted that the IA's sought to highlight ongoing works surrounding risk management and the heightened risk of inadequate risk management until those updates to the progress within the College have been completed.

MW highlighted to the Committee the need for the College to be able to concentrate on students within the first term of the academic year. More time was available for audit work in the spring and summer terms and therefore audits within those terms may be more appropriate moving forward. A member highlighted the comments made in paragraph 1.4 of the report and suggested that these may need to be reflected in the statements and annual audit Committee report.

Action: RR to review the draft annual audit Committee report in light of the comments made in section 1.4

7.4 **Review of IAs KPIs**

Members considered the responses given by MW to the review of the IAs KPI's. MW confirmed that the IAs were very responsive to the College's requirements particularly in moving planned audits in year.

Resolved: to approve the IA reports and the responses to the IA KPI's as received. Proposed DR, Seconded PT. **All in agreement.**

8 **Financial Statements 2016-17**

8.1 **Audit Highlights Memorandum and Management Letter**

SB took members through the report. She confirmed that the audit was now substantially complete and that there would be a clear opinion. She confirmed that the financial statements were true and give a clear and fair view of the College activity. She also advised that the audit work had been very smooth and that the EA's had received good support from MW and his Team.

SB confirmed the need to highlight to readers of the financial statements the question mark over the College as a going concern, this was reason for the inclusion of the emphasis of matter paragraph. She noted that she understood the concerns within the College about signing the accounts containing the emphasis of matter paragraph as stated. She further noted that this was for the decision of the Corporation.

She advised that any Ofsted Monitoring Report may need to be referred to as a post balance sheet event.

Members' attention was drawn to page 5 of the report in relation to the regularity audit and to the statement concerning the departure of the Principal and the process involved around that. She confirmed that in her view the requirements set out in 9.10 of the Code of Good Governance had not been met. JW sought further clarity on that. MW confirmed that processes within the College meant that that would not now happen again. JT emphasised the very unusual circumstances at that time following the Ofsted outcome and the FEC intervention. It was noted that the College had taken independent legal advice contemporaneously to the departure of the Principal.

Members attention was drawn to the other significant matters mentioned on page 6 relating to the breach of covenants.

JW queried the ongoing issues for the College, and the sector, with regard to pensions. MW noted that an FE Corporation was legally obliged to offer LGPS. He advised however that KPMG were arranging to present to the Board on these issues in the near future. SB drew members' attention to comments on the going concern issue as set out on page 10. She confirmed that existing arrangements would be sufficient for the College to continue once the covenants issue had been resolved.

NA took members through the Appendices to the report. The recommendations set out in Appendix 1 were considered. In relation to the first recommendation MW confirmed that all staffing decisions were now passed through the Executive Team. In relation to the second action point RR confirmed that the re-instigation of the Remuneration Committee had already been discussed by the Search Committee at its last meeting and that this would be returning early in 2018.

SA highlighted the recommendations set out in Appendix 2 in relation to the staff FTE report. The Chair asked if this was being actioned. JT confirmed that this was already in progress and that she has now seen the draft report on this.

Members felt that this needed an action point to ensure that this was reported back to the Committee. It was therefore agreed that a complete and accurate staff FTE report would be brought to the next meeting.

Action: MW to bring a complete and accurate staff FTE report to the March Audit Committee Meeting.

Discussion took place on the summary of audit differences as set out in Appendix 3. The differing opinion of how the bursary income should be dealt with was noted. MW confirmed that as the College does not have the ability to spend these funds as it chooses he did not wish to see this funding pass through I and E. HR suggested that she felt this sounded reasonable and was not material.

SB noted the review of key assumptions stated on page 21. She confirmed that the amber level of assessment given was consistent with what KPMG are experiencing in other Colleges. Members considered the treatment of funds sitting within the JV. All in agreement that there was a commercially sensitive risk to including any funds in the accounts. The commercially sensitive risk to this was noted.

Resolved: to recommend approval to Corporation of the audit highlights memorandum and management letter. Proposed DR, Seconded PT. **All in agreement.**

8.2 Going concern and audit opinion

It was noted that the accounts were presented to the Committee for information only. Following the introduction of the Carver System of Governance the accounts now go direct to Corporation for approval.

MW confirmed that the accounts had once again been prepared on a going concern basis. He noted the argument against that would be that the College had

suffered year on year losses however the argument for that would be that the College retained cash reserves and that steps were being taken in year to reverse losses with savings being implemented and reported to Corporation.

The position with regard to the banks was noted. MW was able to report a positive meeting with Lloyds the previous day that included the acting Principal and the Chair of the Corporation.

In relation to the signing of the statements MW suggested that the Corporation would have two options. The first would be to sign the accounts by the 31st December as required by the ESFA including the emphasis of matter paragraph, he noted that this would put the whole of those accounts, including the paragraph, into the public domain due to the requirement to publish. The second option facing the Corporation would be to delay the signing of the accounts until matters could be resolved with the banks which would potentially lead to a removal of the emphasis of matter paragraph. He confirmed that in the current circumstances there was no movement on the changing of wording of the emphasis of matter paragraph with EA's.

MW advised that he had emailed the ESFA on this point and was seeking clarity. JT was able to report that since the meeting had commenced a response had been received from the ESFA who were noting that if signed accounts were not submitted on time the College would be in breach of its funding agreement and therefore signing and submission on time was being recommended. (A copy of that email is contained in the minute book as the email was read out by the Principal during the meeting).

MW confirmed that notwithstanding the contents of the email his view remained the same, but that this was a decision for the Corporation. Prior to Corporation MW confirmed that he would also seek the view of Andrew Tiley, the Deputy FE Commissioner who had visited the College in September with the FE Commissioner Team.

SB confirmed that the ESFA would be looking for assurance of the use of public funds and if it helped KPMG would be able to give assurance on regularity prior to the signing and submission of the accounts.

8.3 Financial Statements 2016/17

MW confirmed that the accounts as submitted align to the management accounts that Corporation had received throughout 16/17. He noted the impact of the LEP grant now coming into the accounts.

PT noted that on pages 118 and 119 success rates should now be referred to as achievement rates. MW confirmed that he would amend the accounts accordingly. The member also noted that at page 121 under Principal Risks and suggested that this should include the risk of ESFA withdrawal of funds for 19+. JT confirmed that a minimum level performance letter was expected but that that could be mitigated.

(Action: MW confirmed that he would amend the accounts on page 121)

(Action: MW to change reference from success rates to achievement rates within the accounts)

8.4 Management Representation Letters

SB confirmed that the letters were sector standard wording and that no amendments had been necessary.

Resolved: to recommend the approval of the Management Representation Letters to Corporation Proposed by PT, seconded by DR, **all in agreement**

8.5 Review of EAs KPIs

Members considered the responses given by MW to the review of the EAs KPI's. MW confirmed that the EAs had adopted a very professional approach to the audit work.

Resolved: to approve the responses to the EA KPI's Proposed DR, Seconded PT. **All in agreement.**

9 Company Financial Statements 2016/17

9.1 EOC Enterprises Ltd

Members noted the accounts for EOC Enterprises Ltd

9.2 EOC SPV Ltd

Members noted the accounts for EOC SPV Ltd

10 Risk Management

10.1 College High Level Strategic Risk Report

It was noted that the majority of discussion on this item had already taken place under item 5.1. The Committee noted that the assurances given in the meeting by JT corresponded with the discussion that had taken place in the private session with auditors and gave the Committee comfort. The Committee looked forward to receiving the up dated risk management papers at the March meeting.

10.2 College Operational High Level Risk Assurance Summary Report

Members noted somewhat erratic scoring of risks on the report. JT echoed this and re-iterated her view that scoring of risks needed to be done as a group and not isolation by individuals. Members were particularly concerned by the scoring of the risk CUR.01.

Resolved: to accept the Strategic Risk Report and College Operational High Level Risk Assurance Summary Report subject to the re-scoring of risk CUR.01. Re-scoring of risks to be taken to Corporation in January 2018 Proposed by DR, Seconded by PT **all in agreement.**

11 Annual Fraud Assessment Report

Members noted the annual fraud assessment report.

12

Committee Self-Assessment Questionnaire

Members reviewed the self-assessment questionnaire. The Chair highlighted the number of 3's recorded in the questionnaire but suggested that in the current position of the College this should not be considered unusual. It was noted that no amendments to the Committee's terms of reference were considered necessary this year.

13

Audit Committee Annual Report

It was noted that the date at the top of the report needed to be changed to 2016/17.

In light of the discussion under the item 8.1 RR confirmed that she would make amendments to paragraph 8c within the report to reflect on the comments on risk management and the Committee opinion to Corporation. Reference to the IA report on post enrolment lessons learnt would also be included in paragraph 8c.

Subject to these amendments it was agreed to approve the report for submission to Corporation.

Resolved: to approve the audit Committee annual report for submission to Corporation (subject to amendments referred to above) Proposed PT, Seconded RS **all in agreement**

The Chair confirmed that there was an item to be taken under AOB for which the IA's and EA's would not be required. IA's and EA's left the meeting.

14

AOB

Members considered the paper received from MW on the tendering for IA's and EA's. It was noted that the last tender process went ahead in August 2015 and IA's and EA's were appointed for a three year period. For IA's this would be up to and including the work undertaken in 2017/18 and for EA's this would include all work up to and including the accounts for the period ending 31st July 2018 including the audit work to be undertaken in October 2018.

MW confirmed that he was recommending that both agreements be rolled over for a further year. He set out his reasons for this; both firms are top tier and provide strong assurance to Governors on the control environment, they were the cheapest options back in 2015, they know the College well and at a time when the College has considerable external scrutiny continuing on with auditors with whom the College already has a relationship is preferable, KPMG have been very helpful in terms of support and the College is in the process of embedding the RSM Risk Model. HR requested that prior to confirming any decision to either firm of auditors they be asked to confirm their charges for one further year.

Resolved: to agree to extend the appointment of RSM as IA's and KMPG as EA's for one further year, subject to agreement of the fees to be charged for that year. Proposed by RS Seconded by PT **all in agreement**

15.

Date and Time of the meetings in 2017/18

Wednesday 14th March 2018 9.30am at Easton College

Wednesday 13th June 2018 9.30am at Otley College

In respect of the June date one member confirmed that he would not be able to attend due to work commitments and requested whether it would be possible to change the date of that meeting.

The meeting was closed by the Chair at 12.10pm