

**The College of West Anglia
Minutes of the
Audit Committee
27 November 2019
9.35 am
Meeting Room, Principal's Suite, King's Lynn Campus**

Present	Gill Rejzl	Governor (Chair)
	Dave Clark	Governor
	Rebecca Hamilton	Governor
Attending	Paul Harrison	Vice Principal Corporate Services
	Neil Harries	Head of Finance
	Nicky Rowland	Head of Human Resources (part)
	Paul Smith	Head of Employer Liaison, Partnerships & Commercial Training (part)
	Sam Quinn	KPMG
	Stephen Halls	Clerk to the Corporation

1 Committee Members' Briefing with Auditors

See "Confidential Minutes – Restricted"

Paul Harrison and Neil Harries joined the meeting at 9.40 am

The Chair welcomed everyone to the meeting, noting that all members of the committee had been recently appointed as governors and that this was the first committee meeting with the new members. Introductions of everyone present followed.

2 Apologies

Apologies for absence had been received from Lucy Nethsingha and Mike Andrews.

3 Declaration of Interests

No interests were declared.

4 Minutes of the previous meeting – 14 June 2019

The Clerk explained that Lucy Nethsingha, chair of the last meeting held 14 June 2019 had reviewed the draft minutes along with the executives and auditors who were present at that meeting. Any corrections or amendments received had been incorporated into the final set of minutes being reviewed today. These were agreed as a correct record of the meeting and duly signed by the Chair.

5 Matters Arising

Item 12, 7/5/19 – Whistleblowing Policy – the Clerk confirmed that the latest policy had been circulated to all staff on 27 August 2019 with a copy placed on the staff intranet for reference. It was agreed that this item would be closed.

Item 8, 14/6/19 – Financial Statements Auditor – Plan – KPMG noted that they were aware of the college's plan for two years of deficits before returning to surplus.

Item 8, 14/6/19 – Financial Statements Auditor – Plan – KPMG reported that the errors identified on the graphs would be corrected in future reports.

Item 8, 14/6/19 – Financial Statements Auditor – Plan – KPMG reported that they had not yet been able to advise on the requirements of the AoC's Remuneration Code for Senior Postholders.

Item 9, 14/6/19 – Audit Needs Assessment & Audit Plan 2019/20 – with regard to reviewing student numbers and looking for further cost savings within the curriculum, the Vice Principal Corporate Services advised that some progress had been made to date and that the review was continuing.

Item 10, 14/6/19 – Risk & Internal Controls Update – the funding audit report had still not been completed. KPMG advised that this was being carried out by its London office. Noting that the audit had been carried out in May 2019 and that responses from the college were still to be finalised, the completion of this report would be chased. **ACTION-KPMG/VPCS**

6 Election of Vice-Chair

The Clerk explained the need for each committee to elect its own Vice-Chair for each academic year.

It was proposed by Dave Clark and seconded by the Chair to elect Rebecca Hamilton as Vice-Chair, Audit Committee for 2019/20. This was agreed.

Paul Smith joined the meeting at 9.57 am

7 Internal Audit Service – Recent Reports – Subcontracting Controls

The Head of Department for Employer Liaison, Partnerships & Commercial Training detailed the one finding from the report regarding the omission of a mandatory clause in the partnership contracts as required by the Education & Skills Funding Agency (ESFA). The Head of Department confirmed that revised contracts had since been issued to all partners and that the matter was closed.

It was noted that the ESFA had still not supplied the college with the retained funding template for the 2017/18 or 2018/19 academic years, despite these being requested by the college and further advice and guidance having been asked for.

The Chair acknowledged that this was an advisory report. The Vice Principal Corporate Services informed the committee that this particular annual audit was an ESFA requirement for all colleges due to the high risk nature of the provision. The Head of Department briefly outlined

difficulties the college had suffered previously with one of its sub-contracted partners which had led to some bad publicity for the college at the time, although noting that most of the students on that particular course achieved their qualification. The Chair asked what the college had done to improve controls since that incident. The Head of Department explained that various additional processes had been introduced such as the enrolment of all 16-18 students being undertaken by college staff. The Chair asked about health & safety and safeguarding issues with regard to sub-contractors. The Vice-Principal advised that the college had no concerns with any of its sub-contractors who were all required to follow the correct procedures which were monitored and checked by college staff during visits to the sub-contractors' premises.

It was noted that some aspects of the report appeared vague, such as section 3.6 regarding agreeing the use of subcontractors with employers.

The report was noted.

Paul Smith left the meeting at 10.24 am

8 Internal Audit Service – Annual Report and Opinion

The Vice Principal Corporate Services outlined the recent changes of the Internal Audit Service, explaining that for the 2018/19 the service had been provided by RSM. Following the re-tender process for 2019/20 Scrutton Bland had been engaged but would be carrying out a reduced service, focusing on the core financials of the college, with the college engaging other consultants and advisers to undertake specialist audits as and when required.

The Head of Internal Audit's opinion for 2018/19 was noted, in that the organisation had an adequate and effective framework for risk management, governance and internal control.

The committee noted that the report also mentioned that further work had been identified by the auditors. The Vice Principal referred the committee to the respective recommendations for each of the audits undertaken during the year, listed at Appendix B of the auditor's report.

The Chair asked how Scrutton Bland would provide an audit opinion for 2019/20 as it would only be reviewing the core financials. The Vice Principal explained that Scrutton Bland would not be in a position to provide an opinion due to the reduced scope of works, and that it would be for the college to assess its own level of assurance. The Chair asked KPMG if they relied on the opinion of the Internal Auditor as part of its own external audit work during the completion of the statutory accounts. Sam, Quinn, KPMG, explained that the report and opinion from the internal auditor would be reviewed as a matter of course, but that KPMG would not be seeking direct guidance from it.

The committee asked what areas of potential risk would not be covered by the internal auditors in 2019/20. The Vice Principal referred governors to the risk register, detailing all areas of concern currently considered by the college.

The Chair asked the Vice Principal for an outline of an assurance framework that the committee could consider at its next meeting. **ACTION-VPCS**

The committee noted that the report incorrectly noted Hertford Regional College rather than the College of West Anglia on page 4 of RSM's report. The Clerk would ask RSM to correct the error and re-issue the report. **ACTION-CLERK**

The report was noted

9 Internal Audit Plan 2019/20

The committee noted that the plan for 2019/20 had been prepared and approved previously by the Board and that this particular report by Scrutton Bland to the committee outlined how it would implement the agreed plan.

The report was noted.

10 External Audit 2018/19

The Chair reminded the committee that the statutory accounts had been reviewed by the Finance & General Purposes Committee at its meeting on 20 November 2019 and that the Audit Committee would be reviewing the report, looking for assurance and confirmation that systems and controls were in place with the appropriate levels of monitoring and reporting.

The Head of Finance advised that there had been two changes to the accounts since the review by the Finance & General Purposes Committee: an accrual of £300k for restructure costs in 2019/20 had been agreed with KPMG to be included in the 2018/19 accounts and an adjustment of £42k for a late accrual. These changes resulted in an increase to the overall deficit position from £3.4m to £3.7m deficit. The balance sheet had been adjusted accordingly for the changes and there had been no effect on the overall financial score or grading of the college, which remained at "Requires Improvement."

The committee accepted that there would still be some necessary changes to the narrative in the report. The Head of Finance advised that a final copy, once completed, would be sent to all members of the Finance & General Purposes Committee prior to the Corporation meeting on 11 December 2019. It was agreed that a final copy would also be sent to all members of the Audit Committee for information.

ACTION-CLERK

KPMG (Sam Quinn) presented the external audit report to the committee. The significant risks to the college were highlighted and discussed, including revenue recognition, management override of controls, LGPS pension valuation and going concern. With regard to revenue recognition, the main source of funding for the college from the ESFA had been confirmed. With regard to management override of controls a very minor incident of an un-reviewed journal being posted to the system had been noted. Regarding the local government pension scheme it was noted that an adjustment had been made in relation to the GMP Equalisation.

The committee discussed in great detail the going concern element of the report, noting the view of the external auditor contained within the report. Demographics, data from feeder schools, other income streams, the college's medium term financial plan, bank covenants and loan agreements were all discussed. The committee asked about the college's relationship with its bankers. The Vice Principal advised that the college met regularly with the bank who it seemed were reviewing the accounts in detail themselves. Sector wide it was considered that banks were being cautious with FE institutions. The committee asked when the current year's budget was reviewed in detail. The Head of Finance explained that a reforecast of the budget was usually undertaken in February of each year.

The sensitivity analysis on page 13 of the report was reviewed. KPMG confirmed that it agreed with management's assessment of going concern and concurred with the use of the going concern assumption for the 2018/19 accounts.

KPMG confirmed that it had no issues with regulatory concerns, asset valuations or with the college's subsidiary companies. The Chair asked if the auditor was happy with the level of materiality adopted during the audit. KPMG advised that the level was in line with other colleges and was of no concern.

KPMG reported that the valuation of the local government pension scheme was considered to be balanced relative to the central rates for a typical UK scheme analysed by KPMG.

The audit recommendations on page 27 of the report were considered. The Chair asked for the two items to be included in the matters arising report for future discussion and monitoring.

ACTION-CLERK

The independence of the auditor (KPMG) was noted, as detailed on page 33 of the report.

It was proposed by Dave Clark and seconded by Rebecca Hamilton that the accounts for 2018/19 and the letter of representation be recommended to the full board for approval at its next meeting. This was agreed.

11 Self-Assessment of Compliance with Regulatory and Propriety Requirements 2018/19

The Vice Principal Corporate Services advised that the self-assessment return was a necessary requirement of the Post 16 Audit Code of Practice, with the return populated with questions to which the college must respond. The Chair asked who was responsible for answering the questions on behalf of the college. The Vice Principal advised that it was himself, noting that the return was then approved by the Audit Committee and the Board before submission.

The committee questioned discrete funding streams into the college. The Vice Principal advised that apart from the main funding contract with the ESFA, other income streams were minor in comparison. From time to time some contracts would be reviewed by the Finance & General Purposes Committee. The Vice Principal assured the committee that the college did not engage in any activities which were outside of the usual activities expected of an FE institution.

The committee queried why the college did not operate a fraud log to record incidents. The Vice Principal advised that at the present time it was considered unnecessary as the college had a very good track record; only two very minor instances had occurred during the past two years.

The Chair asked for a report at a future meeting on fraud, both within the college and the FE sector.

ACTION-CLERK/VPCS

The Chair was pleased to note the responses given against each question and the evidence listed to support each response.

It was proposed by Rebecca Hamilton and seconded by Dave Clark that the self-assessment return be recommended to the full board for approval at its next meeting. This was agreed.

12 Annual Report of the Audit Committee 2018/19

The Clerk advised that the annual report was a necessary requirement of the Post 16 Audit Code of Practice, noting that the report advised the Board of the committee's activities during the year, summarising the audits undertaken and the various reports considered at its meetings. The report also summarised the findings of both the external and internal auditor.

During the review of the report, the Chair commented on the section relating to the Financial Statements Audit where two performance improvement observations had been recorded. The Chair considered that it would be beneficial for the details of any actions being taken or considered regarding the performance improvement observations to be included in future reports.

ACTION-CLERK

It was proposed by Dave Clark and seconded by Rebecca Hamilton that the Annual Report of the Audit Committee be submitted to the full board at its next meeting. This was agreed.

13 Review Progress on Implementing Past Approved Audit Actions

The Head of Finance referred the committee to the summary table of outstanding items at paragraph 5 in the report, highlighting that 7 recommendations had been added since the last meeting.

Item 1 – Apprenticeship Levy

(Note – this item was discussed earlier in the meeting with Paul Smith, Head of Employer Liaison, Partnerships & Commercial Training present).

The Chair questioned why this matter had been outstanding since September 2017. The Head of Department briefly outlined how the customer relationship management system operated and the problems that had emerged. College management was still reviewing the best option to adopt, moving forward. The Vice Principal Corporate Services added that this issue of how best to manage relationships with employers was also a concern for other colleges generally in the FE sector. The Chair asked if this impacted on the college's strategic ambitions regarding engagement with employers and the recruitment of learners. The Vice Principal confirmed that there could be some impact and that an improved software system would certainly help to support the management and control of employer relations and associated activities. The Chair emphasised the need for this matter to be resolved urgently or with mitigation in place to manage the issue as best as possible. Resourcing issues were discussed, with the Vice Principal noting that staff were fully utilised with other projects at the current time, adding that the priority for management at the current time was to identify the best solution to employ. The Vice Principal advised that he would follow up the issue and include it on the college's risk register to highlight the concern. The matter would also be raised with the Finance and General Purposes Committee.

ACTION-VP/CLERK

The report was noted.

14 Annual Report on Risk Management and Review of the Risk Register

The Vice Principal Corporate Services advised that the risk register was currently being updated and that a revised version would be considered by the Board at its next meeting (11 December 2019).

The Vice Principal highlighted Risk 2018 (6) regarding the failure to meet diversification and existing business growth potential, where its score had been reviewed and subsequently increased from 3 to 6, and was now showing as amber.

The Chair noted that the issues discussed earlier relating to the customer relationship management system (item 13) would be included on the register.

The Chair asked that at a future meeting the compilation, monitoring and reporting of the Risk Register be reviewed. **ACTION CLERK/VPCS**

The report was noted.

15 Risk and Internal Controls Update – Verbal Report

The Vice Principal Corporate Services reported that there were concerns with the Capacity Development Fund targets. This activity related to the engagement of learners into work experience opportunities. The target for the year had been set at 200 but currently only 60 learners were engaged and was not expected to exceed 100 by the year end. It was considered unlikely that there would be any clawback of funds in the current year, although this poor performance could affect the grant for the next academic year. The Senior Management Team had been discussing this issue and were concerned that the introduction of T Levels next year would cause further problems as this new style of education required all learners to engage in work experience.

The committee asked why students were not engaging with work experience at the current time. The Vice Principal considered that students who were also working part-time in paid employment would not want to give up their paid work to do unpaid work experience elsewhere.

The verbal update was noted.

16 Student Union Accounts 2018/19

The Chair asked about the source of income into the Student Union accounts. The Head of Finance advised that this related to the sale of discount cards to students. The Chair noted the increase in cash balances during the year which had not been used for the benefit of students. The Head of Finance reported that in previous years funds had been used to purchase outdoor benches, video screens and bean-bags for informal areas. It was agreed that Paul O’Shea (Head of Marketing and Student Services) would be asked to encourage the students to spend the funds for the benefit of students in each year, rather than build cash balances.

ACTION-CLERK

Nicky Rowland joined the meeting at 11.31 am

17 Pay Review Update

This item was deemed “Confidential.”

Nicky Rowland left the meeting at 11.44 am

18 Any Other Business

Sam Quinn, KPMG, thanked the Head of Finance and his team for their help and assistance during the recent external audit. The Chair also offered the committee’s thanks to the Finance team and also to KPMG for the work in completing both the accounts and the audit.

19 Chair’s items for briefing to Corporation

- The Committee reviewed the annual report from the college’s previous internal auditors, RSM, and considered the audit plan for 2019/20 from the new internal auditors, Scrutton Bland.

- The statutory accounts and audit report from KPMG were reviewed and questioned appropriately.
- The Committee approved its annual report to the Board.
- The Committee considered that it would like to review in more detail the college's risk register, how it was compiled, monitored and reported.

20 Date and time of next meeting

Wednesday 25 March 2020 at 9.30 am

The meeting closed at 11.45 am