



Minutes of Audit Committee held Monday 2nd December 2019 starting at 5pm

Members Present: Charlie Harvey (Chair)
Sharon Birdi
Ester Gopoza
Martin Dudley

In Attendance: Andy Comyn (Chief Officer - Finance & Resources)
Gill Darwood (Senior Officer - Corporate Governance) (SOCG)
Tony Felthouse (KPMG)
Asam Hussain (RSM)
Neil Thomas (College Principal)

1 Confirmation of quorum and apologies for absence

1.1 Apologies for absence were noted from Lowell Williams and Helen Lawley. The SOCG confirmed that the meeting was quorate.

2 Declarations of Interest

2.1 There were no declarations of interest.

3 Minutes of Meeting on 7th October 2019

3.1 The minutes of the meeting were accepted as an accurate record and were signed by the Chair.

4 Matters Arising

4.1 There were no matters arising other than those on the agenda.

5 Learning Support for Apprentices – documentation review

5.1 The draft of the report completed by RSM following their review of support for apprentices across the previous two academic years was considered. N Thomas reported that the content was as discussed at the previous meeting, confirming that the documentation in relation to the College's delivery of learning support for apprentices met requirements in 2018/19. He noted that this was further confirmed in the full funding audit which had been completed by PWC in September.

5.2 N Thomas confirmed that to date no response had been received from the ESFA in respect of any comments on the draft report, and the report could not be finalised by RSM without this response. In the meantime, N Thomas confirmed that he had verbally shared the outcomes of the report with the relevant staff within the College.

5.3 **It was resolved** To note the draft report on learning support for apprentices documentation review.

6 **ESFA funding audit report (completed by PWC)**

- 6.1 N Thomas advised that the final report had been received today and had been uploaded to Convene for members' consideration.
- 6.2 He explained that a factual accuracy check of the report had noted one error in the summary which did not accurately reflect the detail contained in the appendices which showed that the College was fully compliant.
- 6.3 Members considered the detail of the report and A Comyn and N Thomas provided clarification and answered questions on points of detail.
- 6.4 The management responses would now be returned by the College so that the report could be finalised and distributed. Members agreed that this audit report was a very good outcome.
- 6.5 **It was resolved** To note the ESFA funding audit report.

7 **External Audit, 2018/19**

7.1 **Management Letter (with Annual Report and Financial Statements 2018/19 for information)**

- 7.1.1 The management letter and draft consolidated financial statements for the year ended 31st July 2019 were considered. A Comyn explained that the management letter had been prepared by KPMG the College's statutory and regularity auditors and provided a summary of the key findings arising from the audit work.
- 7.1.2 T Felthouse explained that KPMG anticipated issuing an unmodified Auditor's Report on the financial statements, effectively confirming that all appropriate accounting practices have been followed and the accounts provided a true and fair view of the financial position at 31 July 2019. Furthermore, in terms of their regularity audit work KPMG intended to report that nothing had come to their attention to suggest that the income and expenditure in the year had not been applied to the purposes intended by Parliament and the relevant authorities.
- 7.1.3 Points arising from the financial statements for the year ended 31 July 2019 were noted as:
- Negative total comprehensive income of -£4.321m compared to +£4.109m last year. The significant variance was mainly explained by the movement from an actuarial gain of £4.796m last year to a loss this year of -£2.383m in respect of pension schemes, which the College was unable to influence or control.
 - £3.175m (7.3% of income) education specific EBITDA compared to £3.499m last year (8.8% of income).
 - An increase in net assets of almost £4.3m to £29k this year compared to net liabilities last year of -£4.253m. This was principally due to the increase in cash during the year of £3.3m (£2.2m at 31 July 2019 compared to an overdraft of £1.1m last year), principally due to the bank restructuring replacing the overdraft with a revolving credit facility.
 - Net assets/reserves decreased by £4.3m to £11.63m, due largely to the increase in the net pension obligations arising from the in-year actuarial loss noted above.
- 7.1.4 T Felthouse provided clarification and answered a number of questions from members on points of detail. He highlighted the key points contained in the management letter, noting that there were two control points for members' attention contained within the

summary. He confirmed that there were no significant control issues and no audit adjustments. The Chair noted that the audit report was exceptionally clean.

7.1.5 **It was resolved** To receive the management letter and to recommend it to Corporation for approval.

7.2 **Letter of Representation**

7.2.1 A Comyn presented the draft letter of representation which had been prepared by KPMG to support the Corporation in confirming to KPMG that the financial statements of the College for the year ended 31 July 2019:

- gave a true and fair view of the College financial position at 31 July 2019,
- had been prepared in accordance with the appropriate accounting practices; and
- had been prepared on a going concern basis.

7.2.2 A Comyn stated that the letter was worded in the same way as last year which meant that Corporation were not being asked to provide any additional assurance or representation than had previously been given. He highlighted in particular section 14 of the letter where the Corporation was providing confirmation of a number of statements contained in this section.

7.2.3 **It was resolved:** To receive the report and recommend it to Corporation for approval.

7.3 **Covenant test calculations**

7.3.1 A Comyn advised that under the loan agreement with Santander signed in September 2015, and as amended to reflect the changes arising from the new accounting treatment under FRS102, the College had financial covenant tests that it was required to meet, which covered the level of net assets and the level of profit (EBITDA) generated compared to the debt service cost.

7.3.2 He explained that the College now had 4 covenant tests in place, 2 covering the level of net assets and 2 covering the level of EBITDA. The calculations showed that the College was due to meet all 4 covenant tests with good levels of headroom for the 2018-19 year-end based on the figures in the audited annual accounts seen at agenda item 7.1. It was also forecast to continue to do so over the next 2 years based on the 3-year financial plan submitted to the ESFA in July 2019.

7.3.3 **It was resolved:** To receive the report and note its contents.

7.4 **Audit Committee's Annual Report for 2018/19**

7.4.1 The SOCG presented the annual report which summarised the work undertaken by the Committee in 2018/19. She explained that the Corporation would rely on the Committee's report in its consideration of the financial statements for the year ended 31 July 2019.

7.4.2 **It was resolved:** To approve the annual report to be signed by the Committee Chair and recommend it to Corporation.

8 **Internal Audit**

8.1 **Internal Audit Progress Report**

8.1.1 A Comyn and A Hussain presented the internal audit report summarising the reviews which had been undertaken in the first term. In total, the two completed reviews had resulted in 21 recommendations, 6 high, 8 medium and 7 low. A Comyn noted that the

additional number of audit days agreed within this first internal audit plan for RSM compared to previous years, would enable RSM to undertake a more detailed and deeper set of reviews, and therefore it had been anticipated that this would give rise to an increased number of recommendations, which overall would be of greater benefit to College management and provide a greater level of assurance to Audit Committee on the adequacy and effectiveness of the College's internal control systems and risk management.

8.1.2 The two reviews were noted which had covered:

8.1.3 *IT Health Check*

It was noted that this had been an advisory audit and as such no assurance opinion was given. Six high priority areas had been noted:

- Need to ensure period review of use of access to ensure password settings are in line with the College's password policies.
- Anti virus software not running on some servers – A Comyn explained that this had been a conscious decision not to slow down operation of servers, although it was running on all computers and laptops. He explained that the College would be looking at the latest software available to see if this could be addressed.
- Patch management process although in place was not documented and agreed.
- Disaster recovery arrangements – recovery time objectives were not documented.
- Firewalls and secondary back ups - document control.
- IT support was currently running on a slim staffing structure.

8.1.4 A Comyn confirmed that many actions were being carried out but not documented and any recommendations were being promptly actioned.

8.1.5 In response to a question from M Dudley, A Comyn confirmed that the College was looking at Cyber Essentials accreditation.

8.1.6 N Thomas also noted that this advisory audit had highlighted a need to look at the required technical skills for the IT team going forward in order to keep pace with developments.

8.1.7 M Dudley suggested that the College's insurers may be willing to contribute or support the implementation of some of these preventative measures.

8.1.8 *Prevent & Safeguarding*

The report had provided a substantial assurance opinion. The audit had checked compliance with the Prevent strategy and safeguarding requirements and had provided just 5 low priority actions.

8.1.9 In response to a question from S Birdi, N Thomas confirmed that DBS clearance was not required for external speakers who were always accompanied by staff, but that checks were carried out on individuals and the materials they were planning to use. He explained that the College was looking to refresh its approach to Prevent which was currently included in the PIP programme. It was noted that RSM routinely shared benchmarking from other organisations as well as good practice. It was agreed that any refresher training on Prevent would also be offered to governors.

- 8.1.10 The Chair confirmed that this outcome was what the committee had hoped to see as a result of the changes to the internal audit arrangements.
- 8.1.11 A Hussain drew members' attention to the appendices to the report which included:
- *Emerging issues for further education* – he explained that these were discussed with College management so that they could provide their input on actions being undertaken by the College.
 - *ISO/IEC27001* – new requirements for providers. A Comyn confirmed that the College was in the process of looking at this and was working towards accreditation. A Hussain explained that RSM were supporting providers to work through the requirements and agreed to put the College in contact with the partner who was leading on this matter. He explained that RSM had asked for some clarifications from ESFA in terms of scope of this requirement.
 - *Fraud update* – it was noted that this had been considered by the previous audit committee meeting, but it contained useful guidance to tie in to the annual report on fraud and regularity requirements for the next year. [It was agreed that this would be an agenda item at the next meeting to look at the College's Counter Fraud Strategy.](#)
- 8.1.12 **It was resolved** To receive the internal audit report on Prevent and Safeguarding and the advisory audit/Healthcheck on IT.

8.2 **Rolling Schedule of Audit Recommendations**

- 8.2.1 A Comyn presented a report which summarised the progress made in implementing the recommendations contained in the audit reports submitted by the previous auditors ICCA Education Training & Skills and also those from RSM. The report identified only those recommendations that were considered to be still outstanding or in progress, and highlighted those that had been completed since the last review.
- 8.2.2 Six recommendations were brought forward and remained in progress. There were 21 new recommendations from the two reports presented at item 8.1, meaning in total therefore, 27 recommendations remained open and would roll forward to the next meeting.
- 8.2.3 **It was resolved:** To receive the report and note its contents.

9 **Risk Management**

9.1 **Risk Management Policy Review**

- 9.1.1 A Comyn reported that the College Senior Leadership Group regularly reviewed the risk register and took action on risks arising. The register was also reviewed by the Audit Committee at least once per term. The policy was currently working well and no changes were proposed.

- 9.1.2 **It was resolved:** To approve the Risk Management Policy

9.2 **High Level Risk Register**

- 9.2.1 A Comyn reported that members of the Executive Leadership Group had updated the risk register and it had been reviewed by members of the Senior Leadership Group. The risk register was considered, which showed the College's current level of risk, along with historical risk levels and dates, with a note briefly explaining the latest mitigations and any factors affecting the risk score where appropriate. The key changes were noted as:

CCR.01 - Risk increased (Likelihood increased).
CCR.14 - Risk reduced (Likelihood reduced).
CCR.49 - Risk reduced (Impact reduced). Risk to be removed before next meeting.
CCR.55 - Risk reduced (Likelihood reduced). Risk to be removed before next meeting.
CCR.57 - Risk reduced (Likelihood increased, Impact reduced).

9.2.2 A Comyn explained that 12 strategic risks were highlighted within the new strategic plan and the College and committee would need to monitor and measure these risks. The Chair suggested that it would be helpful to highlight any significant risks for escalation to Corporation. [A Comyn agreed to bring a proposal on how this could be undertaken to the next committee meeting.](#)

9.2.3 Members discussed a number of matters arising from the report and A Comyn provided clarification on points of detail.

9.2.4 **It was resolved** To approve the risk register.

10 Date of Next Meeting

10.1 Monday 2nd March 2020 at 5pm

11 Any Other Business

11.1 There were no matters of any other business.

The meeting closed at 18.25.

Approved by the Audit Committee at its meeting on 02/12/2019 and signed by the Acting Chair.