



**WEST NOTTINGHAMSHIRE COLLEGE
AUDIT COMMITTEE**

Minutes of the meeting held in the Board Room at the Derby Road site on Friday 4th December 2015 at 3.00 pm

BOARD MEMBERS PRESENT: David Overton, Chair
Diana Meale

ALSO IN ATTENDANCE: Andrew Martin, Deputy Principal Director Finance
Louise Knott, Director of Communications, Marketing and Learner Engagement
Tom Stevens, Executive Director Capital Projects and Estates
Dame Asha Khemka, Principal and Chief Executive
Andrew Argyle, KPMG
John Pressley, KPMG
Louise Tweedy, RSM
Maxine Bagshaw, Clerk to the corporation

It was noted that auditors had not wanted to meet with the Committee without Management present.

ACTION by whom	DATE by when

15.28 APPOINTMENT OF THE COMMITTEE CHAIR 2015/16

David Overton was nominated as the Committee Chair.

AGREED to appoint David Overton as the Audit Committee Chair for 2015/16.

15.29 DECLARATION OF INTERESTS

The Chair reminded those present to declare at the start of the meeting any interests in matters to be considered. No interests were declared.

15.30 WELCOME INTRODUCTIONS AND APOLOGIES FOR ABSENCE

Apologies for absence were received from Chris Winterton and Neil Robinson. It was noted that Chris Bodger, a former Committee member had resigned as a Governor.

15.31 MINUTES OF THE MEETING HELD ON 30TH JUNE 2015

The minutes were reviewed. One error was noted in relation to paragraph 15.17. In the second bullet point the question raised was in relation to the level of 'retention' rather than the level of 'contingency'.

Signed : _____ Chair

Date:

The Clerk confirmed that she would amend the minutes as requested. Subject to this minor change it was agreed that the minutes were an accurate record of discussions.

AGREED: to approve the minutes of the meeting held on 30th June 2015.

15.32 MATTERS ARISING AND ACTION PROGRESS REPORT

Members reviewed the action table and noted the update. In relation to item 3 it was confirmed that this is due to be completed by the end of the 15/16 financial year and is included within the 15/16 capital budget. In relation to item 4 members were advised that retentions accrued are included within the accounts. The Executive Director capital projects is just finalising the sums with contractors. Assurance was given that all outstanding amounts are provided for within the accounts and these are relatively small amounts.

AGREED: to note the update provided.

15.33 INTERNAL AUDIT

1) 2014/15 ESF CONTRACT COMPLIANCE – REVISED FINAL REPORT

Baker Tilly/now RSM presented this report and confirmed that this was the final report for the 14/15 academic year. It was explained that over the summer the audit team had reviewed the sample size involved in the audit. As a consequence, the numbers have changed but the recommendations and actions remain the same as in the previous version.

Members' attention was drawn to section 1.2 which gives the overall conclusion, this is that 'taking account of the issues identified the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. The College will be aware from across the sector that not having evidence that precisely meets the deliverables and contractual requirements and which is fully compliant in all cases can put the College at risk of clawback in the event of a European Union audit. Auditors have identified issues that, if not addressed, increase the likelihood of the risk materialising'

In terms of the updated work it was acknowledged that some documents were missing from the sample size. This has had an impact upon the number of matters identified which have reduced, however there is still a funding risk.

Signed : _____ Chair

Date:

The College management team provided assurance that actions identified have been implemented. It was acknowledged that ESF is such a significant programme that there will always be some risks, however the College is as confident as it can be in terms of compliance. The Director of Finance informed the Committee that the College would be subject to a workforce development audit in December and ESF contract compliance will be a particular area that they review. This is significant provision, circa £10million for the College. Assurance was given that actions identified in the report have been completed. The audit work is part of European Commission activity. It was confirmed that a copy of this audit report would be provided to the Committee as soon as it is available.

Director
Finance

11/02/16

AGREED: to note the content of the report provided.

2 ANNUAL REPORT 2014/15

Internal auditors introduced their report and drew members' attention to a number of items:

- Page 39 – this is the key opinion which indicates that for the 12 months ended 31st July 2015, based upon the work that they have undertaken it is their opinion the College has adequate and effective governance, risk management and control processes to manage the achievement of its objectives.
- Page 42 provides a summary of the outcome of individual reports. All arrows are to the right of centre which is a positive position to be in.

AGREED: to note the content of the annual report provided for 2014/15.

3) INTERNAL AUDIT BENCHMARKING REPORT FOR 2014/15

The Committee were advised that the benchmarking report would be provided to the next meeting as there is still some outstanding information awaited.

AGREED: to defer consideration of this item to the next meeting.

Internal
Auditors

11/02/16

4) INTERNAL AUDIT PROGRESS REPORT

Internal auditors introduced this item and confirmed that work was progressing as planned. The onsite activity scheduled for 23rd - 27th November 2015 has been completed and these reports will be presented to the next meeting. In addition to this the scheduled site work for 4th – 8th January will also be available for the next meeting.

- Page 49 includes detail of recent client briefings.

Signed : _____ Chair

Date:

- Page 52 is a reminder of the Committees responsibilities regarding its opinion to the Board and the assurance it provides.
- Page 55 provides some detail on area review information available.

It was noted that the College is expected to be in the last wave of area reviews which will be on or around November 2016.

AGREED: to note the update provided.

15.34 COMPOSITE COLLEGE RECOMMENDATIONS REPORT 2014/15

The Director of Finance introduced this item and confirmed that so far as the 2013/14 recommendations made there are 2 low actions that are outstanding and are being implemented. In relation to the 14/15 actions identified there are 7 recommendations outstanding, none of which are RAG rated as high priority.

Members reviewed the progress table in detail and a number of matters were considered:

- Page 61 – the Committee questioned whether the fact that this item was still outstanding was because of a staffing issue. The Director of Finance provided assurance that appropriate staff are in place, however it is a significant task to undertake an annual reconciliation. The College is looking at developing a monthly reconciliation process to make it more manageable. It was explained that this is quite a complex process and therefore requires the right staff skills and experience.
- Page 63 – it was confirmed that a new business development strategy is being prepared and that this will need to go to the Executive first before presentation to the Board. It was acknowledged that this will involve fundamental changes and as a consequence will need to be reported and decided upon directly at Board level.
- It was recorded that the second item on page 63 is now complete.
- Page 64 – it was noted that the second item has a completion date 'by December 2015'. It was confirmed that a report/update on this would be provided at the next meeting as part of the composite report.

AGREED: to note the update provided.

15.35 2014/15 FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER

KPMG presented this report and confirmed that it is their formal report for the year.

Signed : _____ Chair

Date:

As anticipated, the 14/15 audit has been much more straight forward, given that the prior year complexities of VWS have been removed. It was pleasing to note that it was a relatively smooth audit, key matters brought to members attention were:

- Page 2 – this is the standard format of the report.
- Page 3 details minor points that are outstanding. It was noted that the £942k figure is before some audit adjustments made. The final position is a consolidated historical surplus for the year of £1.219million. It was confirmed that a copy of this final report would be presented to the Board at its meeting in December.
- Page 4 – this summarises a couple of audit differences but there is nothing significant to report.
- Page 5 confirms that auditors have also completed audits in relation to subsidiary companies. This page also confirms auditors independence
- Page 6 summarises significant risks identified.
- Page 7 – a lot of work has been undertaken regarding the College’s asset base and there are no issues identified.
- Page 8 – auditors have looked at key matters including VWS and pensions. In relation to the latter, auditors feel that some of the assumptions made are prudent however they are within the range of tolerance felt to be acceptable.

Director
Finance

December
2015

Auditors have looked at the College’s forecast for 2015/16 and feel that given the outcome of the recent comprehensive spending review some of the assumptions are prudent which is a positive position to be in.

- Page 11 identifies some low risk recommendations.
- Page 13 provides detail of an audit difference. It was explained that this was a cut off date issue relating to a national citizenship contract. Agreement was reached regarding which data in terms of income and costs needed to sit within the 14/15 academic year and which within the 15/16 academic year.
- Page 14 provides a summary of the financial numbers.

All agreed that the report provided was self-explanatory and a positive position.

AGREED: to note the content of the 2014/15 financial statements audit management letter.

15.36 2014/15 DRAFT MEMBERS REPORT AND DRAFT FINANCIAL STATEMENTS

The Director of Finance introduced this item and confirmed that the consolidated financial statements follow a standard format. Key matters brought to members attention:

Signed : _____ Chair

Date:

- Page 100 – this provides background commentary
- Page 101 - explains what the College has done in the year and the actions taken.
- Page 102 - sets out College objectives.
- Page 103 - sets out College results. It was confirmed that the college has done a lot of work to deliver a strong year particularly within the context of the prior year as a comparator.
- Page 105 - sets out current and future developments and performance.
- Page 107 - sets out key risks and how these will be mitigated.
- Page 110 - sets out key stakeholders.
- Page 114 - provides a summary of Governor membership. It was noted that for the first time all Colleges are required to provide Committee and Board attendance statistics.
- Page 113 - is the statement of corporate governance and internal controls.
- Page 117 - it was noted that there is a typographical error, the penultimate paragraph should read 'her' review rather than 'his' review.
- Page 124 – it was noted that there is a reference to the LSC which needs to be amended.
- Page 126 - is the income and expenditure account. In terms of total income the 2015 position is relatively similar to 2014, however costs are much lower. The College has seen significant reduction in staff costs following the removal of VWS employees. The year-end historic cost surplus position has significantly changed from 2014 to 2015. All agreed that this was an important result and congratulations were passed on to everyone at College. All agreed that it was now important to do a similar job in 15/16.
- Page 128 - is the balance sheet. Key matters that need to be improved for the 15/16 year are reserves as these impact upon the Colleges ability to meet bank covenants. Net current assets/liabilities have improved but there is still further work to be done. Cash position is very strong. The College is now looking to repair its net current ratios, it is now -£1.288million which is an improvement from -£2.277million.

Members' were advised that the long-term pension liability continues to increase, current figure is £15.145 million deficit. It was explained that the College did challenge some of the pension assumptions this year particularly in relation to salary increases which reduced the debt figure. It was acknowledged that the pension deficit seems to continue to increase and will do so until something fundamental is done regarding LGPS. At this point in time it was agreed that this was a matter to simply note. The Committee discussed the pension position generally and felt that there was a broad question to look at what Nottinghamshire is doing when compared to other areas.

Signed : _____ Chair

Date:

The Committee questioned whether there was more that the College could do to influence the position. It was noted that TPS pension sits outside these accounts and if included would further significantly increase the deficit position.

As a general comment it was acknowledged that the College's current assets are larger than the pension liabilities and on this basis remains solvent, however this may change over time. It was agreed that this would need to be monitored and the question asked, at the appropriate time, what the College will do if its assets are less than its liabilities. It was acknowledged that pension deficit is a significant liability on the balance sheet however it is not due imminently.

In terms of the members report and draft financial statements the Director of Finance confirmed that these have been reviewed by the Finance Committee too and are planned for presentation to the December Board meeting.

In reviewing the document as a whole the Audit Committee were happy that it accurately reflected a summary position for the year and were happy to make the recommendation that the Board approve the same.

AGREED: to recommend that the Board approve the 2014/15 draft members report and draft financial statements

15.37 **AUDIT SERVICES ADDITIONAL NON AUDIT WORK UNDERTAKEN FOR 2014/15**

The Director of Finance confirmed that during 2014/15 there was no additional non audit work undertaken by either the internal or the external auditors.

AGREED: to note the update provided.

15.38 **RISK MANAGEMENT**

1) **COLLEGE REGISTER 2015/16 AND COLLEGE SUBSIDIARY COMPANIES RISK REGISTERS**

The Director Communications, Marketing and Learner Engagement introduced this item and confirmed that the Executive have added a risk at priority 1 regarding the external environment and the current planning operational factors for the sector as a whole. Executive felt that whilst some of these risks were captured already, the significance of potential funding reductions, structural change as well as curriculum reform was such that it should be separated out as the most significant risk the College faces at this time. The College has positioned itself remarkably well both in terms of its financial health, reputation and quality.

Signed : _____ Chair

Date:

She confirmed that since this addition there have been some announcements which are likely to reduce the risk. These include:

- a) The comprehensive spending review – the announcement was not as bad as originally feared by the sector but the College is still waiting to hear from the SFA and EFA how the announcements will impact upon each line of funding
- b) Area reviews – the College has now received notification that it will be in wave 5 which is the last wave, which will start circa November 2016.

A section at the front of the risk register has now been added following approval of the College's strategic plan by the Board. Governors will be able to see from this table how the significant risks within the register interplay with the achievement of strategic aims.

In terms of the information provided, page 163 identifies key risks that will prevent the College achieving its strategic plan. Page 165 onwards highlights some minor changes identified in yellow.

AGREED: to note the update provided.

2) TOP 10 KPI'S

Members' attention was drawn to page 197 and the KPI summary. In terms of style the Director of Communications, Marketing and Learner Engagement indicated that she is trying to make it much more simple. All Committee members agreed that they liked this format and found it very user friendly. In terms of the information provided it was acknowledged that the College has significant exposure/risk in relation to the changes proposed for apprenticeship delivery. Assurance was given that whilst there are a lot of unknowns the College is undertaking a robust review with future planning now taking place. In terms of the strategic risk register it was acknowledged that the top risk identified as 'external context' is likely now to be more red/amber rather than red given the recent announcements.

AGREED: to note the update provided.

15.39 ANTI-FRAUD AND CORRUPTION REPORT 2014/15

The Director of Finance introduced this item and confirmed that there have been two allegations of irregularity throughout the year, an update on these will be provided as part of a confidential paper later in the agenda.

As a general point he confirmed that the College is very aware of the increased number of attempted frauds in the sector. To mitigate, the College has made some process changes and remains very diligent particularly regarding capital processes.

Signed : _____ Chair

Date:

The bank is fully supportive and provides on-going guidance to known fraud attempts. It was noted that fraud attempts are becoming ever more sophisticated and much more frequent and that the sector as a whole in response is very transparent and vigilant regarding any attempts.

In terms of the two allegations of irregularity received within the year the Committee questioned who pays for the investigations. It was confirmed that at this stage the College bears the cost as recoupment of costs incurred is not part of the existing subcontractor agreement. It was felt that there was benefit in this being incorporated in future contracts. The Committee indicated that as a principle, they were of the opinion that the College ought to recover any investigation costs from partners.

AGREED: to note the update provided.

14.40 AUDIT COMMITTEE ANNUAL REPORT 2014/15 - DRAFT

The Clerk introduced this item and provided a summary of the content. It was acknowledged that this has been shared with Audit Committee members in advance of the meeting to enable feedback prior to presentation today. One change was requested in relation to page 207, any references to the LSC should be removed. The Clerk confirmed that she would do this prior to presentation of the report to the Board at its December meeting.

AGREED: to approve the Audit committee annual report for 2014/15.

15.41 JCOP

The Director of Finance presented this item for information. He confirmed that the JCOP self-assessment questionnaire had been completed and a copy of this was circulated. He was happy to report that there was nothing significant that he would wish to bring to members attention. This was noted by the committee.

In terms of a general review the Committee Chair questioned at page 215 why there was no reference to higher education within reports received so far in terms of internal audit, external audit or from management. It was explained that the SFA is the College's lead for all funding streams, however it was interesting to note that during an SFA funding audit last year they did not look at HE. It was confirmed that HEFCE do have an option to come in and undertake an audit if they so wish, however they have not done so within the last 8 years. In terms of income there is less than half a million pounds received through HEFCE, therefore they are likely to consider this an immaterial sum. That being said, it was acknowledged that the College does receive funding from HE student loans and has also not had an audit in relation to this although again HEFCE can choose to do so.

Signed : _____ Chair

Date:

It was noted that the SFA funding audit is only periodic, usually every 4 years, however during each and every year the College is required to submit DSAT reports which give an update on the funding position. Therefore the SFA does have regular information despite the fact that they only undertake periodic audits. It was confirmed that internal audit look at various parts of the student records every year and as a consequence of this there is ongoing assurance regarding funding.

The Director of Finance made the recommendation that some of the 15/16 internal audit time ought to be directed to look at HE funding as this is quite clearly an area that has not been subject to audit in any other way and some assurance would be of benefit.

AGREED: to note the update provided.

15.42 CONFIDENTIAL ITEMS

It was agreed that confidential items would be recorded separately.

15.43 AOB

As a matter of additional business the Clerk took the opportunity to update the Committee on membership recruitment. She confirmed that she and the Principal had met with Mr Darren Wilkinson from Natwest Corporate earlier in the day, both believe that he would be an excellent addition to the Committee as an external Co-optee. The Committee were supportive of his appointment and asked that the Clerk take forward their recommendation for Committee Co-optee appointment at the December Board meeting.

Clerk

December
2015

DATE OF NEXT MEETING

It was confirmed that the next scheduled meeting is 11th February 2016 at 5.00 pm.

Meeting closed at 4.45 pm.

Signed : _____ Chair

Date: