



WEST NOTTINGHAMSHIRE COLLEGE
AUDIT COMMITTEE

Minutes of the meeting of the Audit Committee held in the Boardroom, Derby Road site, on Thursday 28th November 2019 at 3.30pm

MEMBERS Neil McDonald, Chair
PRESENT: Clive Pitt
Sardip Sandhu
Rebecca Joyce

ALSO IN ATTENDANCE: Maxine Bagshaw, Clerk to the Corporation
Andrew Cropley, Principal
Jon Fearon, Finance Director
Lee Glover, Haines Watts
Mark Dawson, KPMG

ACTION by whom	DATE by when

MEETING WITHOUT MANAGEMENT BEING PRESENT

The Chair welcomed Lee Glover and Mark Dawson to the meeting and he explained that this pre-meet was to determine whether there were any barriers that they were experiencing which prevented them from completing their audit role. Lee Glover, from Haines Watts, confirmed that so far they have had good engagement from staff. He acknowledged that this was a developing relationship but described it as a good start. Mark Dawson from KPMG confirmed that the college had taken a very open and honest approach and that the audit itself was much more advanced this year when compared to the prior. He described audit preparedness as good, although there is still room for improvement. He confirmed the expectation that KPMG would be providing an unqualified opinion. There may be some specific matters that they wish to draw to the Committee and Board’s attention – for example, the assumptions regarding the sale of BKS B – but he confirmed that these would not be matters that were not already known to the college. He confirmed that there were no regularity issues.

(Andrew Cropley and Jon Fearon joined the meeting at 3.35pm)

Signed : _____  _____ Chair

Date: 14.02.2020

1 **DECLARATION OF INTERESTS**

The Chair reminded everyone present to declare any interests that they may have on agenda items to be discussed. No interests were noted, save for standing declarations.

2 **APOLOGIES FOR ABSENCE**

There were no apologies for absence, with all members of the Committee being present.

3 **MINUTES OF THE MEETING HELD ON 17TH SEPTEMBER 2019**

The minutes were reviewed and it was agreed that they were an accurate record of discussions.

AGREED: to approve the minutes of the meeting held on 17th September 2019.

There were no matters arising.

5 **ACTION PROGRESS REPORT**

The Clerk presented the update and the Committee were happy to note the content of the information provided.

6 **AUDIT SERVICES – ADDITIONAL (NON-AUDIT WORK) UNDERTAKEN IN 2018/19**

The Finance Director drew the Committee's attention to his detailed report and confirmed that:

- In 18/19, the college's external auditors were KPMG and internal auditors were RSM
- In 19/20, the external auditor is Mazars and the internal auditors are Haines Watts.

In 2018/19, KPMG undertook three additional pieces of work. He explained that this was a different team than that which undertook the external audit of the Financial Statements.

- The first being the annual audit certificate for the teachers' pension at a cost of £1k.
- The second is an audit certificate regarding subcontract activity, which is provided to the ESFA to provide assurance at a cost of £7k +VAT.
- The third being the completion of work to review historic errors in claims for apprenticeships, which has led to an agreed recovery to the ESFA of £850k. The cost for this review was £13k.
- No additional work was undertaken by RSM.

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He indicated that:

- In 19/20, it is proposed that Mazars will undertake the TPA audit, which was identified in their tender (and included within the price).
- It is proposed that the college initially ask Haines Watts to provide the audit certificate for subcontracting. This will align with the internal funding audit review they will carry out in 2019/20. He expressed the view that the Haines Watts team has more experience than Mazars in relation to this.

The Finance Director confirmed that the information provided was to ensure transparency and ensure that there can be no suggestion of any conflict of interests. He invited the Committee to note the information provided and also agree to the recommendations made to appoint Mazars to undertake the teachers' pension audit in July 2020 and to appoint Haines Watt to undertake the 19/20 subcontract audit (estimated cost of £5k dependent on ESFA requirements).

The Committee considered the information provided and were happy to endorse the recommendations. As a point of accuracy, they challenged staff to fully utilise the template provided when completing reports. It was noted that on the first page of the report it indicates that this agenda item is for 'information' and 'monitoring' review, whereas on the second page it then goes on to ask for Committee approvals. The challenge from the Committee was for all staff to ensure that the front page of the report is accurate so that Governors can clearly see what is being asked of them and so can prioritise. A further observation made was that there had been no reference to the strategic objectives as required by the template. The Committee asked that all report writers get in to the habit of clearly cross-referencing with strategic objectives or, if not applicable, indicate that the report presented does not have an impact upon achieving strategic objectives.

AGREED:

- a) To note the content of the update provided;
- b) Approve the appointment of Mazars to undertake the teachers' pension audit in July 2020; and
- c) Approve the appointment of Haines Watts to undertake the 2019/20 subcontract audit.

Signed : _____  _____ Chair

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INTERNAL AUDIT 3-YEAR STRATEGY AND 2019/20 OPERATING PLAN

Lee Glover from Haines Watts introduced this agenda item and confirmed that it was intended to be an extensive document given that it is the start of the company's relationship with the college. It was agreed to review the proposal on a page by page basis:

- Page 1 – this sets out the introduction and explains the benefit of using internal auditors.
- Page 2 sets out how the assessment has been made in relation to audit needs.
- Page 4 sets out the key findings and key issues identified from a review of a number of key sources of information. Matters identified are student records, employer engagement, subcontractors, financial management, expenses, procurement, curriculum planning, risk management, higher education and follow up.
- He confirmed that the risk register has been reviewed in detail as have minutes of the meetings of committees and the Board.
- Previous audit work undertaken has been reviewed.
- There is an acknowledged need to critically look at student records.
- Page 14 confirms that they operate to the internal audit charter.
- Page 17 sets out the proposed areas of audit for 19/20. He confirmed that the areas of audit will be reviewed each year rather than being fixed for a longer period.

The Committee considered the proposed areas of review for 2019/20 and discussed a number of areas in more detail. In relation to the proposed activity/testing regarding student records (10 days), the Finance Director indicated that the college would need an acknowledgement that, for some learners, the student record system will not be compliant at particular points in time. He expressed the view that one of the difficulties regarding the previous audits undertaken by RSM was that they did not take in to account the cycle of data input, error checks, submissions etc., and that this in itself led to issues being highlighted that were not of the level of severity that would initially appear to be the case given the content and tone of the reports received.

He indicated that it would be important to stage the reviews so that the college has done all of its own internal checks before externally being tested, therefore this may mean that more than 10 days are required. He drew the Committee's attention to the report to be discussed later at agenda item 9, and confirmed that the college has now also had ESFA ILR audit feedback. He advised that auditors appointed by the ESFA have confirmed a positive audit with a satisfactory outcome, albeit that there are still things that can be

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improved. A key issue for the college is to better understand the risks throughout the year rather than a yearend analysis where it is very difficult to make a significant impact.

He indicated that the college internally needs to improve its MIS/data reporting so that staff can better understand the risks and ensure compliance. He confirmed the intention to enhance monitoring so as to give a greater level of assurance to the senior team and to governors.

The Committee considered the proposal to utilise five days to review subsidiaries and departments (e.g. Refined, Create and Revive). They questioned whether these were a priority in 19/20, particularly as the number of subsidiary companies is reducing and the margin of profitability on commercial operations is so limited. They made the observation that the college could potentially use these five days better.

A question and challenge from the Committee was whether or not the list proposed for 19/20 has a priority schedule. It was acknowledged that not all of the areas intended to be tested are of equal importance. Haines Watts drew the Committee's attention to appendix C, which shows what are considered the non-priority matters. Following discussion, the Committee felt that the proposed departmental reviews related to very marginal activity and that, realistically, the college needs to better articulate its strategy for Revive, Refined, Create, etc. before an audit is undertaken in relation to these. The Committee asked whether it would be possible for the college to undertake its own internal deep dives rather than utilise audit days in relation to this. Senior staff confirmed that this was possible.

Following in depth discussion, it was agreed that the five days proposed for subsidiary/department reviews would not be undertaken and that these five days would instead be used to enhance the student records work required.

As an overview, a challenge from the Committee was that they want internal auditors to pick up and follow up on any matters identified by external auditors. They expressed the desire to have both internal and external audit work dovetail, rather than operate on a standalone basis.

The Committee reiterated that they would wish to see any assignment briefs before fieldwork commenced, and that these briefs are to be agreed by the Audit Committee. It was agreed that, if there are any additional/amended scopes that require approval in advance of the next scheduled meeting (14th February 2020), these will be circulated by email for discussion and approval.

AGREED: (subject to the amendment agreed at the meeting) to

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approve the 2019/20 internal audit plan.

The Committee then went on to consider the scope of audit fieldwork included within the pack; these related to:

- a) Apprenticeship on-boarding,
- b) Expenses, and
- c) Follow-up.

The Committee considered the scope proposed in relation to apprenticeship on-boarding, and a number of additional observations/requests were made:

- Apprenticeship retention to be considered as part of the review, as the college has historically been below national average.
- A challenge from the Committee was that they would wish to see the work undertaken link in with the employer engagement process, with observations made on the quality of the process.
- The scope planned covers compliance, however, the committee and senior staff would also like auditors to test quality. This includes the speed of the process, ensuring that apprentices achieve etc. Auditors confirmed that they would look at the CRM system as part of the review.

With the additions requested, the Committee were happy to approve the scope of the apprenticeship on-boarding fieldwork planned.

The Committee then went on to discuss the assignment briefs in relation to expenses and follow-up. All agreed that the follow-up planned was quite straightforward and that, in relation to expenses, this was a learning priority audit.

AGREED: to approve the scopes proposed.

8 AUDIT COMMITTEE ANNUAL REPORT FOR 2018/19

The Clerk introduced this item and explained that this is a draft for the Committee to amend as they think is appropriate. This is a report to the Board from this Committee and sets out a summary of the work undertaken for the year and also clearly articulates where assurance has been obtained and where there may also be issues to address.

The Committee reviewed the report provided and requested one minor amendment: in paragraph 1.3, this is to read that 'both the internal and external audit service went out to competitive tender in 2018/19'.

Subject to this one minor change, the Committee were happy to approve the annual report as presented.

AGREED: to approve the Audit Committee Annual Report for 2018/19.

Signed : _____  _____ Chair

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9 **COMPOSITE COLLEGE RECOMMENDATIONS REPORT**

The Finance Director introduced this item and confirmed that this was a summary of actions outstanding from 17/18 and 18/19. He drew the Committee's attention to the update provided in relation to subsidiary companies and confirmed that the college now only has two active subsidiaries: VBSS and BKSB. The other four subsidiary companies are in the process of being struck off and/or liquidated (these are Safety Plus Construction, Safety Plus Training and Consultancy, VWS and Vision Apprentices). He confirmed that the VBSS Board of Directors had met earlier in the day and had agreed that the internal auditor recommendation made historically was overly complicated, given what the company actually does. VBSS is controlled by the college and has limited activity, therefore, the VBSS Board do not feel that it is necessary to have an independent external director.

He confirmed that the college has taken the necessary steps to simplify arrangements in relation to subsidiary companies and, as a consequence, now feels that this action has been completed. The Committee agreed and it was confirmed that this could be removed from the 'outstanding actions' list.

In relation to the 2018/19 actions, the Finance Director confirmed that the real testing would come from Haines Watt as part of their follow-up and also from the ESFA audit. He advised that the ESFA audit report is due in January 2020, however, the college will receive initial statements from auditors on Wednesday next week. He reiterated that the verbal feedback so far is that they are satisfied with the audit findings, whilst it is not the case that the college's systems and process are perfect.

In general discussion, the Committee acknowledged that there were some reports that were still bringing the college to the attention of the ESFA and that this has to be a priority to address.

In terms of the action dates included within the composite report, a question and challenge from the Committee was in terms of whether the GDPR targets from 2018/19 will be met. The Finance Director confirmed that they would.

AGREED to note the content of the report provided.

10 **RSM LEARNER NUMBERS REPORT – SUMMARY OF ISSUES AND ACTIONS TAKEN TO ADDRESS**

The Finance Director drew the Committee's attention to his detailed report and confirmed that Haines Watts will look at this as part of their follow-up work and will test. He also advised that the ESFA is currently

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looking at a complete set of data and that, by comparison, RSM did not necessarily do this because of the timing. The ESFA has looked at yearend data whereas RSM will have tested in year, which at various points in the year would not have been complete.

He informed the Committee that there is a risk that has been identified regarding the planning of 540 hours. He explained that 540 is the minimum, therefore the college should be planning for 580 to give a cushion/buffer. The college cannot allow any individual student to drop below 540 hours as there are then financial consequences. He confirmed that this issue has been identified early enough and that there is now action required to ensure that more hours are planned and occur. He expressed the view that the MIS team need a new set of parameters and need to better understand the risks associated with these hours so that they can challenge staff where they think there are gaps. In terms of the current position, there is potentially £3 million at risk; however, he provided assurance that there was sufficient time to address this issue. The Committee were advised that they will receive two reports at their February meeting: one from Haines Watts following their testing and also an internal report identifying the revised internal controls to monitor learner data.

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AGREED to note the content of the report provided.

11 KPMG SUBCONTRACTOR CONTROLS COMPLIANCE 2018/19

The Finance Director presented this report for information and confirmed that it is submitted to the ESFA. He reminded Governors that there are two areas where the college subcontracts: these are in relation to a) AEB & b) historic apprenticeship provision.

In terms of the ESFA ILR audit recently undertaken, there are no issues with these two areas; however, there is outstanding testing in relation to 'non-procured post-May 2017 starts'. He explained that the college has not had a finalised position on this from the ESFA, therefore there could be an issue/impact. A particular concern is the evidencing the 20% of the off the job training required.

He explained that, because the college could not provide sufficient evidence from the original sample, the college now has to be able to prove 100% off the job training for the learner cohort identified (240 learners). If the college cannot prove this element, it will not receive the outstanding 20% achievement payment.

The Finance Director explained that this is potentially 2.5% of the income stream. The current view is that the college will struggle to evidence the off the job training for 65 out of the 240 learners. A large proportion of these are the college's own direct delivery in London.

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The Finance Director explained that there is a 5% funding tolerance and, therefore, because of the smaller percentage and number of learners involved, it may not reach the threshold for clawback. However, this is not something he can confirm at this stage. In terms of off the job training generally, he explained that students who come to college on a day release basis are not an issue as this is sufficient evidence for off the job training. However, there are other areas where this is not the case. He explained that the college will need to self-declare any known non-compliance, and that current thinking is that this is the 60 or so learners. He provided assurance to the Committee that this issue is now known and is being addressed through the use of OneFile. Therefore, this should be another historic matter only.

The Finance Director specifically drew the Committee's attention to page 4, which sets out the summary of findings, and the table, which shows areas tested, observations and the rating of any recommendations made. As an overview, he indicated that the college was not as proactive as it could have been in 18/19 but gave assurance that this is not the case in 19/20.

He reminded the Committee that, throughout the 18/19 year, the college has made two declarations to the ESFA regarding subcontracted activity; therefore, this should give the ESFA comfort that the college is taking an open and transparent approach. He confirmed that the report identifies some weaknesses and that these will be addressed.

The Committee considered the actions agreed in Appendix 1 and asked for assurance that items 1, 3, 5 and 8 have been completed, given that their agreed date was October 2019. The Finance Director confirmed that these have all been completed and addressed.

AGREED: to note the content of the report provided.

12 RISK MANAGEMENT – COLLEGE REGISTER 2019/20

The Finance Director presented the updated document and drew the Committee's attention to matters which may have moved or been added:

- Line 1 – this will stay a high risk until the college has had its next Ofsted inspection. It was noted that Ofsted risks are articulated as being a 3 or a 4, but it was acknowledged that a 4 was a low risk (albeit a significant magnitude if it occurs).
- Line 9 – the RAG-rating in relation to this should come down fairly soon following the outcome of the ILR audit.
- Line 30 is a new risk.
- Line 17 - it was explained that BKS B has had some historic write-offs in 18/19, which impacted upon their performance. Also, there is a concern regarding the £1.7 million EBITDA

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target figure for 19/20. 19/20 is not currently tracking to the £1.7 million forecast, therefore, performance for the year remains a risk.

AGREED: to note the content of the updates provided.

13 **FIXED ASSET REGISTER**

The Finance Director presented this item and confirmed that all of the colleges 'attractive items' are asset tagged. He explained that the risk is minimal to building stock which is adequately insured, and also the risk is minimal to larger pieces of plant, furniture, fixtures etc. He confirmed that there were no fundamental risks to the value of assets in the accounts and gave assurance to the Board that the systems and processes in place are appropriate and adequate.

On the basis of the information provided, the Committee were happy to accept this report as a close-down of the previous internal audit action agreed.

AGREED to note the content of the report provided.

14 **EXCEPTIONS REPORT**

It was confirmed that there were no exceptional items to report to this meeting.

15 **AOB**

As a matter of additional business, the Committee expressed their thanks to KPMG as this would be the last audit committee meeting that they would attend.

16 **DATE AND TIME OF NEXT MEETING**

The Clerk confirmed that the next scheduled meeting is Friday 14th February 2020.

17 **CONFIDENTIAL MINUTES OF THE MEETING HELD ON 17TH SEPTEMBER 2019**

The minutes were reviewed and it was agreed that they were an accurate record of discussions.

AGREED: to approve the confidential minutes of the meeting held on 17th September 2019.

Meeting closed at 4.50pm.

Signed : _____  _____ Chair

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Date: 14.02.2020