



## Audit Committee Minutes

Meeting held on 6<sup>th</sup> June 2017 at 5.30pm in Room 301, SRC One

*Governors:* Mr R Poundford (Chair), Mr S Chaudhary, Mr N Dart (also Director of Infrastructure), Mr R McCallion

*In attendance:* Ms C Leece (RSM), Mr J Creed (Icca-ets)

*Officials:* Mr P Cook (Principal and Chief Executive), Mr P Hastie (Vice-Principal: Corporate Planning and Performance), Mr P Hiser (HR Director), Mrs F Sharp (Finance Director) and Sarah Thompson (Clerk)

*Apologies:* Norma Wilburn

*(Meeting commenced at 5.30 pm)*

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Prior to the meeting, governors presented Lynn Smith, PA to the Principal, with gifts and thanked her for her work and support to governors, during her time as Acting Clerk and in her role as PA to the Principal and Clerk to the Joint Steering Group. Lynn thanked governors for their gifts.

### Declarations of Interest

Jonathan Creed reported that he was Head of Internal Audit at Darlington College.

Richard Poundford reported that he had attended two dinners hosted by ICCA-ets as part of AoC Conferences.

The Chair welcomed attendees to the meeting.

### **A17/10 Agenda Item 1 – Standing invitation to auditors to speak with committee members**

There were no matters that the auditors wished to bring to members' attention.

### **A17/11 Agenda Item 2 – Minutes of previous meeting**

Minutes of an Audit Committee meeting held on 21 March 2017, had been circulated. The minutes were **agreed** to be a correct record.

Members noted updates against actions arising from previous meetings and the following were highlighted in particular:

- Advisory review of English and maths  
Members were notified that the report had been delayed and ICCA-ets were working to conclude this as soon as possible with a view to completing the report by 9 June 2017. In response to members' challenges, it was clarified that the information provided to date had failed to respond to the substantive question raised and Mr

Creed highlighted that ICCA-ets had found it more problematic than anticipated to respond to the audit scope.

It was **agreed** that the report should be circulated to members as soon as possible once the management review had been completed and that the Vice Principal should liaise with the committee in the event of any further delays with completion of the report.

- Payroll

The HR Director reported that action in respect of the payroll provider was currently on hold as the college was planning to tender for a new payroll system and give notice to the payroll provider. Any decision would be presented to the Finance and Employment Committee for formal agreement, in light of level of costs and potential strategic risks. The Finance Director highlighted that the current payroll contract should be reviewed due to the potential for slippage with implementation of any new system. Members recognised the significant risks associated with payroll and it was confirmed that the system would be a proprietary system, not a bespoke in-house solution, and that the internal audit plan for 2017-18 included a review of the system. The Finance Director agreed to share with Audit Committee members the project implementation plan, following procurement.

- Students' Union

It was noted that the request for a representative of the Students' Union to sign off the Students' Union accounts would need to be reviewed, in light of the decision of Board members to revoke the formal Students' Union constitution and operate with a Students' Association during 2017-18.

**A17/12 Agenda Item 3 – Notification of Items of Other Business**

No additional items of business were notified for consideration.

**A17/13 Agenda Item 4 – Outstanding Actions Status Report**

A report had been circulated detailing outstanding audit actions. One action arising from an internal audit of payroll was currently on hold. This related to exploring changes to the file type received from the payroll bureau to reduce manual input. Some improvements to the system had been made but further improvements had been put on hold pending purchase of a new payroll system. One external audit action, related to refreshing of the agreement with the payroll bureau, was noted as on hold but would now be taken forward. One action arising from an internal audit of NETA Training Trust, relating to performance monitoring, was in progress and would be put in place for the 2017-18 academic year.

Members received and noted the report.

## **A17/14 Agenda Item 5 – Internal Audit Reports**

The following internal audit reports had been circulated and were discussed:

### **a) Payroll**

Members were reminded that an initial draft of the Payroll internal audit report had been received with no recommendations. A number of issues had subsequently arisen and ICCA-ets had therefore agreed to review their findings. The auditors had judged the system design to be good, but application and compliance to be only adequate. However, the overall assurance opinion had been substantial. Two medium priority recommendations had been made. The first related to recording of sickness absence, following an overpayment of sick pay which had evidenced some uncertainty in respect of responsibility for checking sick pay. The HR Director confirmed that a process was now in place and HR staff were checking sick pay information to ensure this aligned with information from the payroll bureau. Statutory Sickness Payments had been tested in May and found to be correct. It was confirmed that the overpayment had been recovered. In response to a challenge, the HR Director confirmed that this was believed to be an isolated incident related to personnel changes within the payroll bureau. Members noted that the College intended to purchase a new system and review the contract with the payroll bureau.

The second recommendation related to seeking to reduce the amount of manual posting, due to incompatibility between the College's and the payroll bureau's finance systems. In response to governors' challenges, it was confirmed that responsibility for any new payroll system would be with the finance team and the Finance Director was strategic lead for the project. It was also clarified that the College was currently drawing up specifications with a view to issue by end of June, receipt of proposals in July and award of contract in September. Dependent on the selected provider, implementation could commence from September with a view to implementation, testing and training between September and January. The Finance Director confirmed that the College would aim to undertake a parallel pay run in December and go live in January 2018. Members recognised the tension between controlling costs and successful implementation. The Finance Director also highlighted that three payrolls would be transferred (College, NETA and TVC) and this had been taken into account in the timescale. She confirmed that any system would allow flexibility for any further changes to the College group structure. Mr Chaudhary agreed to provide information on a potential payroll system to the Finance Director.

### **b) Management Information and Reporting**

The internal audit had judged the design of systems in this area to be good, with good application / compliance and an overall assurance opinion of substantial. No recommendations had been made. In particular, members noted that the auditors had reviewed use of the master targets file to inform reporting to committees, senior managers and production of the management accounts. It was noted that auditors had previously reviewed the College's performance review and business planning processes and auditors confirmed that there were no apparent barriers to scaling up this process as the business expanded. Members recognised that timely and high quality information was provided to governors and the positive audit report recognised this.

c) Learner records

Auditors had judged the design of the system in this area to be good, and application / compliance also to be good. An overall assurance opinion of substantial had been awarded and four low priority recommendations had been made. Mr Creed highlighted that the auditors had used the Education and Skills Funding Agency's (ESFA) testing process, albeit with a smaller sample size and no testing of bursary funding.

The first recommendation related to ensuring learners' signatures were captured on all relevant areas of forms. The Vice Principal confirmed that the form design would be re-considered but errors were primarily linked to management of the system. The second recommendation related to ensuring evidence of student exemptions was brought together in a single place. The third recommendation related to identifying missing attendance information for a NETA apprentice and evidence of online learning and the final recommendation related to following up on students marked as 'achievement not known', as there was a requirement to evidence achievement within 12 weeks. While all recommendations were low priority, any funding audit would report all instances of non-compliance and it would therefore be important to address the identified issues.

d) Follow up

The auditors' review of previous recommendations had resulted in an assurance opinion of substantial and it had been identified that all 11 recommendations had been implemented and management reporting to governors was complete and accurate.

The Principal requested an overview of recommendations received and level of recommendations over recent years, in order to identify whether numbers and recommendation level were increasing or decreasing year on year. It was recognised that different internal audit plans were used each year, which made comparisons difficult, and activity such as merger with NETA would impact. However, it was felt that such an analysis would be helpful in showing the general level of compliance as an indication of management capacity.

Members received and noted the reports and the Finance Director **agreed** to produce trend information on number of recommendations received and level of recommendation over recent years.

### **A17/15 Agenda Item 6 – External Audit Strategy for 2016/17 final accounts**

The External Audit Strategy for the 2016-17 final accounts had been circulated and the Finance Director highlighted that she had met with Claire Leece and Chris Barrett to discuss the strategy. Committee members were invited to submit any additional amendments. Ms Leece highlighted the identified key risks, which included going concern basis, for example, any bank covenant breach or forecast breach which could impact on loans and ESFA financial health rating. In response to a governor's challenge, the Finance Director reported that the College had not recently breached any covenants and the College aimed to measure compliance with covenants in year but formal testing could not be undertaken until the accounts had been closed down. The College had undertaken a lot of work to reduce debt and would also look at whether it was most appropriate to pay creditors on 31

July or 1 August. Other risks included proposed merger and, in order to support the auditors in their work, the Principal provided auditors with a merger update, highlighting that the proposed merger with Darlington College would not proceed in the near future and the colleges would be issuing a joint statement. He also reported that the FE Corporation had agreed that the College should submit an interest in merging with Redcar and Cleveland College following an approach from the FE Advisors. Members did not identify any additional risks not covered in the external audit strategy.

Ms Leece also drew members' attention to the audit fees, as outlined in the document and the actions outstanding from the previous year, which would be reviewed as part of the audit process.

Members confirmed that they were not aware of any instances of fraud within the College and **agreed** the External Audit Strategy.

An appendix to the report had also been provided outlining a number of emerging issues impacting on the sector. It was suggested that this be circulated to all members of the FE Corporation. In response to a member's query regarding the pension fund, Ms Leece clarified that Local Government Pension Scheme contributions had been reviewed in 2017 and the impact was therefore already effective. Consideration was being given to consolidating schemes and this could impact on contribution rates. Contribution rates for the Teachers' Pension Scheme would be reviewed in the current year and were likely to increase. Some colleges were considering ways of reducing the pension burden, for example, by establishing subsidiary companies for business support staff and it was confirmed that the College had no plans to take such action. It was also confirmed that pension arrangements for employees of NETA Training Trust were continuing as previously. It was requested that the Finance Director and HR Director consider potential impact of any increases in the Teachers' Pension Scheme contribution rate and Ms Leece agreed to confirm the date of the review.

Members noted that the College was classed as a public authority in some areas of law, for example, Freedom of Information, although excluded from the public sector for others, for example, exit payments. The Director of Infrastructure reported that the College had commenced work towards the new data protection requirements, which could significantly impact on the way in which the College held and managed data, and a range of briefings were planned.

#### **A17/16 Agenda Item 7 – Internal Audit Strategy for 2017/18**

The proposed Internal Audit Strategy for 2017/18 had been circulated and the Finance Director reported that this had been developed through discussion with ICCA-ets and feedback from the Senior Leadership Team. Mr Creed highlighted that the plan took into account areas of key risk for the college and the identified areas for internal audit review included: students requiring additional learning support and high needs students; performance management within NETA training trust; learner records; subcontracting (particularly in light of the financial difficulties faced by a number of providers in the sector); apprenticeships; capital strategy; human resources and payroll. Areas of non risk based coverage included financial controls. Auditors would also review progress against previous recommendations and attend Audit Committee meetings and a contingency of four days was included for possible work related to merger. In response to a challenge, the Finance Director confirmed that a senior manager would be allocated to each audit and

indicative days and timings would be provided. It was further clarified that the plan could be amended in year to reflect new developments and emerging risks.

In response to a member's queries, Mr Creed confirmed that the vast majority of audit work was undertaken on site. It was further clarified that there was no statutory requirement for an internal audit function within colleges but most colleges had retained a service

Members received and noted the Internal Audit Strategy for 2017/18 and **agreed** to recommend this to the FE Corporation for agreement.

### **A17/17 Agenda Item 8 – Fundraising Procedure**

A report had been circulated detailing proposed action in respect of fundraising activity within the College and the Finance Director tabled information detailing the fundraising activity that had taken place over the 2016-17 financial year. Members were reminded that, as part of governors' consideration of the Students' Union accounts in December 2016, governors had sought further clarity regarding fundraising activity and it had subsequently been identified that no formal records of fundraising were held. In line with the Prevent strategy, the College would need to clearly demonstrate that fundraising was not supporting extremist activity. It was stressed that there was no wish to discourage fundraising activity but the College recognised the importance of financial controls and potential impact on reputation, as well as the positive use of fundraising as part of marketing activity.

Proposed amendments to the Staff Code of Conduct and financial regulations were detailed in the report and the proposed form for fundraising activity had been circulated. Members discussed the requirement to indicate that the fundraising would not support extremist groups and the Finance Director clarified that prospective fundraisers would be expected to tick the box to confirm that a background investigation had taken place. It was felt that this was a proportionate approach when balanced against the risks. Members discussed information available for the current and previous years and the Finance Director highlighted that the Finance Team had been instructed to record all fundraising appropriately moving forward but it was felt that there was little value in backtracking for previous years. Governors supported a proportionate approach, in recognition that the activity was being undertaken primarily by students and tutors, and requested that checks should be more rigorous and undertaken in advance where a large sum was involved, but without making the process too difficult. Members also discussed the most appropriate route for governor scrutiny of the process.

Members commended the proposed Fundraising Procedure and **agreed** to recommend associated amendments to the Financial Regulations to the FE Corporation. The Finance Director agreed to discuss with the Deputy Principal the most appropriate method of reporting fundraising for governor scrutiny. Governors commended the level of fundraising in 2016-17, which was £19 k to date.

### **A17/18 Agenda Item 9 – Risk Management**

The Strategic Risk Register for the College had been circulated with amendments noted in bold / strikethrough. Members noted, in particular, apprenticeships as a key risk and recognised that this was an area for internal audit review in 2017-18. The increased risk of breach of bank covenants was also recognised. The Strategic Risk Register for NETA

Training Trust, as presented to the previous meeting of the NETA Board, had also been circulated.

The risk registers were received and noted.

#### **A17/19 Agenda Item 10 – Internal Audit Performance**

A report had been circulated detailing the Finance Director's assessment of the internal audit service over the 2016-17 academic year. She highlighted that scoring was in line with scoring in 2015-16. In 2015-16, there had been an issue with lateness of some reports and this had generally improved in the current year, although the English and maths review had been very delayed. Overall, the service was valued and auditors were helpful and responsive.

Members discussed best practice in respect of auditor renewal and the Finance Director clarified that it was generally viewed as appropriate to change auditors every five years. It had not been felt appropriate to consider re-tendering in 2016, due to the proposed merger with Darlington College and it was suggested that, if current merger proposals proceeded, it could be preferable to retain the current audit providers for a number of years to ensure transfer of audit controls and disciplines. It was clarified that there were around five providers with specific sector expertise, as well as a wider range of providers working outside the sector. It was suggested that a decision in respect of tendering audit provision be considered once the position in respect of merger was clear.

Members recognised that issues in relation to production of the English and maths audit report were significant but also noted that this was the only issue arising and the College was generally happy with the quality of reports and auditors' knowledge of the sector. Members also commented that the auditors' approach appeared professional and flexible.

Members **agreed** to recommend the reappointment of Icca-ets for 2017-18 subject to resolution of the audit of English and maths. The Finance Director agreed to draft a letter outlining governors' discussions, particularly their disappointment in respect of the English and maths review, and share this with the Audit Committee Chair.

#### **A17/20 Agenda Item 11 – Any other business**

No additional items of business were considered.

#### **A17/21 Agenda Item 12 – Approval of Documents for Public Inspection**

It was **agreed** that the agenda and approved minutes be made available for public inspection. Draft minutes would be made available once approved by the committee at the next meeting. Supporting documents would be made available for public inspection with the exception of the outstanding actions status report, internal audit reports, the external and internal audit strategies, risk registers and the review of internal auditor performance, which were deemed commercial in confidence.

**A17/22 Agenda Item 13 – Date and time of next meeting**

Tuesday 10<sup>th</sup> October 2017 at 5.30pm

*(The meeting ended at 7.45pm)*