



## **Audit Committee Minutes**

Meeting held on Tuesday 21 March 2017 at 5.30pm in Room 301, SRC One

*Governors:* Mr R Poundford (Chair), Mr S Chaudhary, Mr N Dart, Mr R McCallion, Mrs N Wilburn, Mr J Anderson (student governor – observer)

*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:* None received. All members were present

*(Meeting commenced at 5.30 pm)*

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### **Declarations of Interest**

The Chair welcomed attendees to the meeting.

#### **A17/1 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.

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

Minutes of an Audit Committee meeting held on 29 November 2017 and a joint meeting of the Audit and Finance and Employment Committees, also held on 29 November 2017, had been circulated. The minutes were **agreed** to be a correct record.

The following action update was provided:

#### Payroll contract / internal audit outcomes

The HR Director would be meeting with Teesside University representatives on 22 March 2017 to discuss and seek to re-negotiate the payroll contract. Ms Leece reminded members that the recommendation to revisit the payroll contract and seek assurances regarding quality of service arose during the external audit, which had identified that the payroll contract was dated. In response to a challenge, the Finance Director clarified that payroll was not regarded as a strategic risk and therefore would not be included on the strategic risk register.

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

Members agreed to consider the following additional items of business at the end of the agenda:

- College Fundraising Policy
- Internal Audit Report: Subcontracting Certificate
- Post 16 Audit Code of Practice

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

A report had been circulated detailing outstanding audit actions. Of the three outstanding recommendations arising from internal audits, one relating to payroll upload was still in progress. The College was continuing to work with the payroll bureau to identify whether manual workings could be reduced.

Of the four actions arising from external audits, three remained in progress. One action related to payroll and two related to NETA subsidiaries.

Members received and noted the report.

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

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

#### **a) Performance Management**

The design of the College's performance management framework had been judged good but, due to some inconsistencies in compliance, application was judged to be 'adequate'. An overall audit assurance opinion of 'substantial' had been awarded. Four recommendations had been made; one advisory, two of medium priority and one of low priority.

Members discussed the advisory recommendation, which related to providing refresher training to all staff on the minimum required standards to be used when completing appraisal documents and inclusion of data, including observation grades awarded for the previous year and current year targets. Mr Creed clarified that sampling had covered 30 academic teaching staff and this recommendation aimed to improve consistency of approach across all staff. In response to governors' challenge, the HR Director clarified that the appraisal form provided a framework for a structured conversation and would be amended to take account of the recommendations. Governors stressed the importance of recognising staff as human beings and ensuring a system not solely reliant on data and with some flex. In response to a further challenge, Mr Creed clarified that moderation had not taken place in 2015-16 and the introduction of a moderation process was a medium priority recommendation in this report. The Principal suggested appraisal forms should include some baseline data to frame and contextualise discussions regarding performance. In response to a further challenge, the HR Director highlighted that he did not feel it was appropriate to provide appraisal training for all staff but important that managers would be re-trained to undertake appraisals correctly.

A medium priority recommendation related to improving the tracking spreadsheet maintained by the HR team. In response to a governor's challenge, the HR Director clarified that the suggested timescale for implementation was based on the appraisal schedule but agreed to ensure an earlier completion date.

As previously discussed, the second medium priority recommendation related to reinstating the moderation process. The HR Director reported that the College was currently exploring options in respect of HR systems which could help with the moderation process.

Governors also noted a low priority recommendation relating to more regular reporting of appraisal completion rates to the Finance and Employment Committee. Members discussed the process for signing off appraisals and it was clarified that there had been rare instances of staff refusing to agree their targets. Governors stressed that appraisal should be an ongoing conversation during the year and the HR Director confirmed that managers regularly reviewed performance on a weekly and monthly basis. The Vice Principal highlighted that the number of staff directly allocated to each manager had been reviewed and was now a maximum of seven. It was also confirmed that an escalation process was in place.

b) Risk Management and Corporate Governance: NETA Training Trust

Auditors had judged the design and application of processes and procedures in this area to be good and provided an audit assurance opinion of substantial. Three low priority recommendations had been made. The first related to Standing Orders and it was clarified that the College's Standing Orders had now been reviewed, in March 2017, and specific Standing Orders for the NETA Training Trust Board would be drawn up for agreement at the next NETA Board meeting. The second recommendation related to developing a separate template for declarations of interest by NETA directors. The final recommendation related to improving reporting between the NETA Board and FE Corporation, specifically tracking against the Key Performance Indicators set out in the Master Target File.

A member noted references to international training delivery, specifically in relation to countries where trading restrictions were imposed, and queried the corporate risk, especially with respect to banking arrangements. The Vice Principal reported that both the NETA Board and the FE Corporation received information in relation to international work and had a central role in reviewing risk. Mr Creed clarified that the audit had found that an appropriate process was in place to identify risk and the auditors had confidence in the process.

The Finance Director reported that an internal audit of payroll had also been undertaken and an audit assurance opinion of substantial had been awarded. However, following receipt of the report, a number of issues had arisen and it was therefore felt that the report could have been misleading. It had been agreed that this would be revisited, although no significant recommendations were expected.

An English and maths review had also recently been completed. This had taken a holistic view of the sector and shown that the College was achieving at around the national average. The report would be presented to a future Audit Committee meeting.

Members received and noted the reports.

## **A17/6 Agenda Item 6 – Risk Management**

The Finance Director presented the circulated report and the updated College Strategic Risk Register. She highlighted that the Risk Management Group had recently met and considered the College and NETA risk registers. Risks were ranked by gross and net risk. Risks considered but not added to register were detailed in the covering report and it was highlighted that the external environmental factors identified during the Governors' Strategic Seminar had been cross-referenced during this discussion.

The Finance Director further highlighted that operational risks were identified by individual departments and discussed as part of performance review and business planning meetings. Members noted a new risk arising from the performance review process in respect of failure to secure full payment for High Needs Element 3 funding. It was clarified that the Local Authority was working to drive down costs. The unit costs for the College were unchanged and there was a possibility that the forecast level of income would not be generated in the current year. In response to a query, it was clarified that this funding related to learners with specific needs that required a higher level of support.

In response to a further challenge, it was clarified that the risk register was reviewed around seven times per year, with quarterly reviews at performance review meetings and additional reviews at business planning meetings.

A member challenged the point at which developments relating to collaboration regarding alternative curriculum would be included on the risk register. It was clarified that any additional provision would be added to the register once confirmed and the identified risks would need to be considered as part of the project development.

A member also challenged whether risks arising from the pause in the merger process had been considered. The Vice Principal clarified that the register had not been reviewed since the decision to pause had been made but this would be considered. The Finance Director agreed to discuss with the Chair of Finance and Employment Committee action in respect of addressing any issues arising from the due diligence reports.

Members noted the progress of risk monitoring for 2016-17.

## **A17/7 Agenda Item 7 – Any Other Business**

The following additional items of business were considered:

### **7.1 College Fundraising Policy**

The Finance Director reported that, following a discussion with the Student Services Manager, it had been identified that a wide range of fundraising was taking place across the College that was not necessarily related to the Student Union. The student governor highlighted, as an example, involvement in fundraising as part of a College assignment. Adoption of a formal policy would also be important as part of the Prevent agenda to ensure funds were not being raised for extremist organisations. It was anticipated that the policy would clarify how information was captured, for example via an 'application to fundraise', and provide assurance that all monies would be managed via the Finance Team. It was stressed that there had not been any indication of any poor practice and this action was intended to safeguard fundraisers.

The information was received and noted.

## 7.2 Internal Audit Report: Subcontracting Certificate

The Finance Director highlighted the circulated report providing information on an external assurance of subcontracting controls and the associated certificate. Mr Creed reminded members that, in 2015, the Skills Funding Agency (SFA) had introduced a requirement for all lead training providers with subcontracting provision of £100 k or more to commission an external review of subcontracting arrangements. Training providers were also required to submit a certificate to the SFA confirming either compliance in each area or that an action plan was in place to move towards compliance. It was clarified that only the certificate was provided to the SFA and the accompanying report was solely for the College's use. It was confirmed that the certificate had now been submitted in advance of the deadline.

It was noted that a significant proportion of the College's subcontracting was with NETA Training Trust. Members considered the two areas of non-compliance and it was confirmed that the two contracts issued with names inconsistent with the legal entity name registered at Companies House had now been updated. It was also confirmed that contracts would be changed to reflect the match funding requirements detailed in the SFA Funding Rules.

In response to a challenge, it was clarified that the College was a partner organisation undertaking Prince's Trust activity but the College did not subcontract to Prince's Trust.

The report was received and noted.

## 7.3 Post 16 Audit Code of Practice

A report had been circulated notifying members of the recent publication of the Post-16 Audit Code of Practice. There were no substantial changes in comparison to the former Joint Audit Code of Practice, although references had been updated to reflect changes to the Machinery of Government. An additional section set out characteristics of providers where regularity concerns had been identified. It was confirmed that all these areas were tested as part of the regularity audit.

The information was received and noted.

## **A17/8 Agenda Item 8 – 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 also be made available for public inspection with the exception of the outstanding actions status report, the internal audit reports and the strategic risk register, which were deemed commercial in confidence.

## **A17/9 Agenda Item 9 – Date and time of next meeting**

Tuesday 6 June 2017, 5.30 pm

*(The meeting ended at 7.40pm)*