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Directorate: Governance

Minutes of: Audit Committee

Date: 20 September 2017 **Time:** 9.30

Venue: Executive Meeting Room, Uxbridge Campus

Present:

Mark Eastwood (ME)	Governor (Chair)
Tracey Critchley (TC)	Staff Governor
Mike Cox (MCx)	Governor
Nasim Khan (NK)	Governor

In attendance:

Steve Lake (SL)	TIAA (internal auditors for Harrow College)
Vikash Patel (VP)	Head of Finance
Tracy Reeve (TR)	Clerk to the Corporation
Sara Sands (SS)	Group Director of Finance and Resource Planning
Nick Simkins (NS)	Moore Stephens LLP (external audit Uxbridge College)
Ben Stapleton (BS)	KPMG LLP (external audit Harrow College)
Laraine Smith (LS)	CEO/ Principal

1. **Chair's Agenda Item**

The external auditors for Harrow College – KPMG – confirmed that they would stay close to the new Group Director of Finance and Resource Planning (SS) and the Harrow College finance team during the external audit 2016/17.

NS as the lead from Moore Stephens confirmed that he did not foresee any problems with the Uxbridge College audit after the pre-audit work had been undertaken. He confirmed the need for the Audit Committee and auditors to understand the newly merged college moving forward and to ensure the correct systems and procedures were in place. He highlighted the risks which existed around recent changes to key personnel at the two colleges as a result of the merger and for the Audit Committee to monitor this moving forward.

2. **Apologies for absence**

There were no apologies. ME welcomed everyone to the first meeting of the new HCUC Audit Committee. He highlighted that as Audit Committee Chair he was always happy to speak to other Audit Committee members or auditors about any concerns or comments that they wished to make outside the meeting.

3. **Notification of any urgent items members may wish to raise under Any Other Business**

There were no items notified.

4. **Notification of Interests Members may wish to declare relating to any item**

There were no interests declared.

5. **Minutes of the meeting held on 8 June 2017**

The minutes were approved and signed by the Chair.

6. **Matters arising from the minutes of the meeting, 8 June 2017, not on the agenda**

There were no matters arising that were not already covered by the agenda.

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7. Preparation of Audit Committees' Annual Reports 2016/17

SS introduced the first draft of the two Annual Reports 2016/17 of the Harrow College (HC) Audit Committee and the Uxbridge College (UC) Audit Committee. The Chair sought confirmation from TIAA that the number of internal audit recommendations shown on page 5 at 9 was correct.

TIAA to confirm at next Audit Committee meeting.

The Clerk (TR) confirmed that both of the reports as presented met all the requirements of the Joint Audit Code of Practice (JACOP). Governors were reminded of the importance of the Annual Audit Committee Report within the Board Assurance framework as it provided assurance to the whole Corporation alongside the College Financial Statements. The meeting noted that the statements around the external auditors' opinions would be confirmed after the audit of Financial Statements 2016/17 was completed for each of the two colleges. It was confirmed that the Audit Committee report would move to one corporate HCUC report for 2017/18.

SS informed the meeting that KPMG would be undertaking a funding assurance audit for both colleges for the final 2016/17 ILR. It was noted that this non-mandatory audit had been undertaken at Uxbridge College on an annual basis to give governors additional assurance around funding claims; it would be introduced for Harrow College in October 2017. Audit Committee members sought confirmation on whether the funding audit would continue to be commissioned moving forward into 2017/18; SS asserted that the decision would rest with the Audit Committee but she would recommend that this practice was continued for HCUC to provide additional assurance and rigour.

The two separate draft Audit Committee Annual Reports 2016/17 were APPROVED subject to the confirmation sought from TIAA - as presented. The final reports would be presented for approval at the next Audit Committee, (29/11/17).

8. Key Performance Indicators for auditors 2016/17

SS presented the draft performance indicators (KPIs) for 2016/17 for External and Internal Auditors. The external auditors would be judged against the same criteria as used in the prior years at Uxbridge College based on four elements: Audit arrangements; Conduct of the audit; Professionalism of the audit; and five general indicators covering the working relationship between auditors and College, whether auditors regularly updated College management on sector changes and the availability of auditors throughout the year in response to ad-hoc changes. The template for the assessment of internal audit provision at Harrow College was noted as the same as used for the external auditors. However, Members noted that as the internal audit provision at Uxbridge College during 2016/17 had been provided by a number of specialists commissioned as required by the College, feedback on performance of each of the specialists would be sought from the College managers who had interacted with the auditors. The 'value for money' of the individual specialist provision would also be assessed using subjective factors such as timeliness and the usefulness of the recommendations. The meeting noted and agreed the practice for the two sets of external auditors and for TIAA as Harrow internal auditors to self-assess against the KPIs in advance of the next Audit Committee meeting. The Clerk confirmed that the final completed KPIs would be sent to the ESFA as an Annex to the Colleges' Audit Committee Annual Reports.

The PIs for Internal and External Auditors were APPROVED as presented.

It was AGREED that the External Auditors (Moore Stephens and KPMG) and Harrow College Internal Auditors (TIAA) would complete a self-assessment based on the KPIs for 2016/17.

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9. **Annual Report of the Internal Audit Service, TIAA for Harrow College (HC).**

SL introduced the draft report for consideration and the following points were highlighted:

- The 2016/17 Audit Plan approved by the HC Audit Committee was for 28 days of internal audit coverage during the year. During the year there had been one change to the plan with 4 days originally allocated to a review of 'Marketing' instead being used for an investigation relating to a HC sub-contractor. The meeting sought, and was given, confirmation that this was not an issue as the merger with Uxbridge College (UC) on 1st August 2017 had made a review of Marketing unnecessary. Other areas reviewed during 2016/17 had been: key financial controls; quality assurance; and learner numbers controls testing. The assurance assessments for each of these areas had been: substantial; substantial and reasonable, respectively. **The meeting highlighted that Annex A to the report needed to be updated to correct the total days and to reflect the actual days audit carried out during the year.**
- There were 7 recommendations (2 of which were classified as 'routine' and 4 were 'important'). All of the recommendations were noted as being in relation to compliance.
- The TIAA opinion stated that they were satisfied that for the areas reviewed during the 2016/17 year HC had reasonable and effective risk management, control and governance processes in place.

Internal Audit Visit Report: Review of sub-contracting arrangements, September 2017: The Audit Committee meeting noted this visit report from TIAA which had been undertaken on an operational basis rather than to provide assurance. As a result there was no formal level of assurance given. The three key findings and both of the priority 2 (classified as important) recommendations were noted and discussed.

Subject to the correction requested on Annex A, the HC Internal Auditors Annual Report 2016/17 was RECEIVED and would be RECOMMENDED to the HCUC Corporation in December 2017.

10. **To receive the draft annual report on Risk Management for recommendation to the Governing Body**

a. Harrow College: The Audit Committee noted that this report which had previously been presented to – and approved by - the Harrow College Corporation at their last meeting in July 2017. It was noted that this updated Risk Register for HC 2016/17 now included the period May-July 2017. The 15 key strategic risks identified for HC were considered by Audit Committee members. The Audit Committee noted that all of these risks would be taken forward for 2017/18 and where appropriate would remain a risk to HC or would become a risk under corporate services e.g. Finance, West Met Skills (Employer Services).

b. Uxbridge College: SS presented the annual report of the UC Risk Management Group for the period 1 August 2016 to 31 July 2017. The meeting was reminded that there had been no formal Internal Audit on Risk Management and Corporate Governance undertaken during 2016/17 as previous audits in this area had given the College substantial assurance. Governors noted that instead the work of specialist auditors during the year had been concentrated on areas of high priority detailed in the Risk Register. SS confirmed that the Risk Register was working well as a live document showing 'RAG' rated risks aligned to the Corporate Goals and was fully embedded at all level through the College. A review of the Risk Register continued to be a standing item on the agenda for each of the schools and service areas when reviewed at SMT meetings and it was included in their development plans. SS confirmed that the membership of the Risk Management Group was the Senior Management Team (SMT).

Governors sought clarification of any commonality in risks between the two colleges and SS confirmed that the highest risk areas common to both HC and UC were around recruitment of learners and funding. The meeting sought, and was given, a verbal update on how enrolment 2017/18 was going in each of the colleges. The Principal informed the meeting that more

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detailed information on the current enrolment would be presented to the Corporation meeting on 26th September 2017.

The Risk Management Reports 2016/17 were APPROVED for submission to the Corporation - in December 2017 – subject to confirmation of the compliance with Corporate Governance requirements (to come from the external audit of the financial statements for 2016/17).

11. To receive the audit plan for 2017/18 from the external auditors

a. Harrow College, KPMG LLP: The Audit Committee noted that this report had previously been presented to – and approved by - the Harrow College Audit Committee (May 2017), and the HC Corporation at their last meeting in July 2017. BS presented the report on behalf of KPMG who had been the external auditors for HC for the last 5 years. The meeting noted a summary of the major audit risks which had been identified around the following: revenue recognition; going concern; accounting treatment of capital spend on the new Health and Social Care building; updates on prior years focus areas; purchasing and expenditure; and risk management override of controls. It was noted that the level of materiality had been provisionally set at £300,000 but all individual errors in excess of £15,000 would be reported. Governors sought clarification on how the level of materiality was calculated and BS informed the meeting that it was based on a sliding scale between 0.5% -3% of income. NS was asked the same question and it was noted that UC financial statements materiality would be based on 2% of income, £600,000. An interim audit had been carried out in July 2017 and the field-work onsite at Harrow would commence on 2nd October 2017. The date for the clearance meeting had been agreed as 17th October and BS confirmed that the GDFRP (SS) would be in attendance at this meeting. The accounts and audit management report would be finalised for the next meeting of the Audit Committee on 29th November 2017. The meeting considered the key risks diagram on page 7 of the report which clearly showed the impact and likelihood of internal factors as well as a range of external risks (both audit risks and business risks were separately identified). The detailed audit approach on risks was noted and BS highlighted the positive addition of the separately commissioned funding audit for Harrow College – to mirror the approach taken at UC - which had not been done in previous years. It was also noted that the dissolution of Harrow College on 1st August 2017 would require some additional wording in the 2016/17 HC financial statements. Governors sought clarification on the treatment of the two colleges having different rates of depreciation; it was confirmed that this would not be an issue and could be maintained moving forward or the decision could be made to align for 2017/18. BS confirmed that the depreciation period for HC buildings had been based on the advice of the builders: MCx questioned the validity of using builders' advice on this but accepted KPMG's judgement. The Principal sought clarification on whether there were other areas of difference in the two colleges accounting policies; SS confirmed that this would be reviewed for 2017/18 in order to enable a composite set of financial statements for HCUC to be generated in 2017/18. The declarations around independence on page 16 of the report were highlighted and noted by the meeting. The fees of £23,500 plus VAT were noted as being the same as the prior year and this included an audit of the Teachers Pension Scheme contributions.

b. Uxbridge College, Moore Stephens LLP:

The meeting considered a report from Moore Stephens which outlined the audit plan for the external audit of Uxbridge College for the year ending 31 July 2017. The meeting noted that the scope of the work would include an audit opinion on the financial statements as well as a regularity audit for year end 31 July 2017. Governors were given confirmation that the Regularity Audit would also be undertaken for HC. The meeting noted a detailed summary of the audit approach that would be used during the external audit and was given assurance that it was in line with the prior years' audit activity. NS informed governors that he had already been into the College to meet with the SS and the Head of Finance to talk through the process and any likely risks that might impact on the year-end position. The audit risks identified were noted as: revenue recognition; defined benefit pension scheme; risk of management override; staff

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costs; regularity review; and preparations for the merger which took place on 1st August 2017. NS confirmed that they would not place reliance on any financial testing undertaken by internal auditors during 2016/17 but it would be taken into account. The timetable was noted with the field work commencing on 9th October for 7 days. Presentation of the final accounts to the Audit Committee and the Resources Committee would be on 29th November 2017 before they were taken to Corporation for approval on 12th December 2017. The fees of £15,000 plus VAT were noted as being the same as the prior year and in-line with the tender submission from Moore Stephens in June 2015.

NK sought clarification on the number of days work involved in both of the external audits but it was confirmed that this was not specified as the contract for the financial statements audits was output based. Governors sought, and were given, confirmation that there would only be one external audit for the composite HCUC financial statements 2017/18. It was confirmed that a tender process for the external audit provision for HCUC from 1 August 2018 would take place in early 2018 and would be brought to the Audit Committee for approval; the Chair of Audit would play an active role in this process.

The external audit plans for the 2016/17 financial statements were NOTED.

12. To discuss the Internal Audit Strategy 2017/18-2018/19 for recommendation to the Governing Body

SS introduced a paper detailing the updated internal audit strategy and the annual plan for 2017/18. Governors were reminded of the requirements and obligations placed upon the Audit Committee and the Corporation under the overarching statutory documents of FE colleges. The importance of the challenge and scrutiny role of the Audit Committee and Governors was noted and agreed. The ex-Harrow Governors noted that since 1 August 2015 the Uxbridge College Corporation had agreed that no one firm would be appointed to deliver the annual internal audit contract; internal audit requirements were now reviewed annually and specialist firms appointed as necessary. It was confirmed by ex-Uxbridge Governors and SS that this had worked well during 2015/16 and 2016/17 with specialist audits being commissioned where necessary; this had provided a good level of assurance for Governors and had also proved to be good value for money. SS confirmed that this approach was proposed to continue into 2017/18 for HCUC.

The meeting noted the key areas of concern raised by a review of both colleges risk registers for 2017/18 and in discussion with College senior managers. Areas planned for inclusion in the internal audit plan 2017/18 were noted as: Key Financial Controls (including the new payroll system); Funding compliance (including compliance with requirements of the study programme; Safeguarding (last completed in January 2016); and Health and Safety (last completed June 2016). Governors noted that £55,220 had been included in the HCUC College budget for 2017/18 to allow for the internal audit work and any additional ad hoc audits. It was agreed that there may some additional internal audit work that was required as part of the post-merger process. The outline proposals for 2018/19 were noted as: Key Financial Controls; funding compliance; IT systems maintenance; Learning Support; and Apprenticeships funding (levy and non-levy).

After thorough discussion of this proposal to use call-off specialists for the provision of internal audit services the meeting agreed to proceed on this basis with TIAA completing the Key Financial controls audit (as they had done in both Colleges during 2016/17. The ex-Harrow College governors agreed to approve this proposal but did not fully agree that it necessarily provided a better option for the new College. NS informed the Audit Committee members that as an auditor within the FE sector he had seen evidence over the last few years of colleges moving away from using a single internal audit provider to a model where a mix of specialist suppliers was commissioned. NS asserted that this model often provided very thorough visit reports with detailed and up to date recommendations; this was ultimately more use to many

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colleges. The Chair (ME) suggested that before it was approved the Internal Audit strategy should be reviewed by an external independent 'third party' to ensure adequate and appropriate coverage; other governors felt that this was the role of the Audit Committee but agreed with the suggestion from ME that the independent third party should be TIAA (previously Harrow College's internal audit service provider). This would allow for the audit plan to have independent consideration alongside the work performed by the executive team, ensuring the best possible audit plan that would provide the best risk coverage for HCUC.

It was AGREED that TIAA would perform a short and unobtrusive review of the proposed internal audit plan 2017/18-2018/19 and make a final submission at the next audit committee meeting (29/11/17).

13. To receive and approve the Risk Management Policy for HCUC

The meeting considered a revised Risk Management Policy for HCUC; this was based on the previous UC version. The meeting sought, and was given assurance that this policy met all regulatory requirements and good practice guidelines.

The HCUC Risk Management Policy was APPROVED as presented.

14. Review of previous audit recommendations

The Head of Finance (VP) presented a report on progress against the existing five Internal Audit recommendations carried forward from Uxbridge College. These were in relation to, key financial controls (1), and IT Services (4). The meeting noted that the work to transfer the Fixed Asset Register to curriculum departments had commenced in summer 2017 and was being taken forward outside of term-time. The meeting was also pleased to note that two of the recommendations in relation to IT were now complete and the other two were both on track for completion in autumn 2017 (one in October and the other in November).

The report was NOTED.

It was AGREED that future drafts of this report should use a bigger more readable font.

15. To receive an update on the Risk Register

The GDFRP reported on the Risk Register which detailed the risks mapped to the Strategic Aims of the College. The meeting noted the two separate College Risk Registers which were both now in the format previously used by Uxbridge College: these had the risks aligned to the Corporate Goals of each college. SS confirmed that both of these Risk Registers would continue to be monitored via the individual sub-Committees as well as by the Audit Committee. The Risk Register aligned to the Post Merger Action Plan (PMAP) was also considered; the risks on this were aligned to the PMAP rather than the corporate goals. The Principal informed the meeting that an update of the PMAP would be considered by the Corporation at their next meeting (26/09/17). The red risks on each of the colleges Risk Registers were considered in more detail, these were in relation to: enrolment, funding and targets, English and Maths and staffing. It was confirmed that one composite Group Risk Register would be available from January 2018 after the new HCUC Strategic Plan 2018-2020 had been agreed by the Corporation.

The governors requested that the Risk Register should be printed in A3 format as it was very hard to read in A4 size. Audit Committee members expressed concern at the scale of the risk register review required going forward now that there were 3 separate risk registers. SS reminded governors that this would only be until January 2018. Audit Committee members stressed the need for the sub-committees to take a more active role in their consideration of the relevant sections of the Risk Register; they needed to review it thoroughly and generate any required changes. The Clerk suggested that at the end of 2017/18 the sub-committees of the Corporation should be asked to complete a self-assessment of their work undertaken against

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their Terms of Reference; this would 'close the loop' and give full assurance around the risk management process at the sub-committee level. The Chair suggested that the Risk Register Report should include a cover sheet (in line with pages 6/7 of the HC Risk Register 2016/17) which detailed the top ten risks for HCUC.

The Risk Registers were RECEIVED.

It was AGREED that:

- i) **The Risk Register should be presented in A3 format to improve readability.**
- ii) **The Risk Register Report should include a cover sheet (in line with pages 6/7 of the HC Risk Register 2016/17) which detailed the top ten risks for HCUC.**
- iii) **For 2017/18 the importance of the sub-committees' review of their specific elements of the risk register should be emphasised: each of the sub-committees to be required to self-assess against their individual Terms of Reference at year end.**

16. To receive report on any fraud/corruption issues and additional work required by auditors 2017/18

• **Fraud**

There had been no attempted fraud or corruption issues to report.

• **Additional work undertaken by auditors**

There had been no additional work undertaken by auditors. BS highlighted that KPMG had undertaken the due diligence work for the merger in November 2016 and they would also be undertaking the funding audit on both Uxbridge and Harrow ILRs 2016/17 as commissioned by HCUC.

Noted

17. To confirm and agree the dates and times of meetings for 2017/18

The dates and times of the meetings were agreed as follows:

- Wednesday 29 November 2017 at 10.00am
- Wednesday 28 February 2018 at 10.00am
- Wednesday 27 June 2018 at 10.00am

The venue for the future meetings was confirmed as the Uxbridge campus at Park Road.

18. Items to feedback to the Governing Body

The Chair (ME) confirmed that he would action this and would put together the items for feedback at the Corporation meeting.

19. Any other business

The Chair asked the GDFRP (SS) to set up a meeting between himself and the two firms of external auditors to discuss the results of their Financial Statements audits in advance of the next Audit Committee meeting. **[SS to action]**

There was no other business. The meeting closed at 11.15am.

Signed.....

Date.....



Uxbridge Campus
Park Road, Uxbridge, Middlesex

