WEST NOTTINGHAMSHIRE COLLEGE
AUDIT COMMITTEE

Minutes of the meeting held in the Board Room at the Derby Road site on Wednesday 3rd December 2014 at 5.00pm

BOARD MEMBERS PRESENT:	Chris Bodger Chris Winterton Diana Meale David Overton, Chair
ALSO IN ATTENDANCE:	Maxine Bagshaw, Company Secretary Andrew Martin, Deputy Principal Director Finance Tom Stevens, Executive Director Capital Project and Estates Louise Knott, Director of Communications, Marketing & Learner Engagement Dame Asha Khemka, Principal and Chief Executive Louise Tweedie, Baker Tilly Andrew Argyle, KPMG Niall Davidson-Petch, KPMG

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

		ACTION by whom	DATE by when
14.37	**APPOINTMENT OF THE COMMITTEE CHAIR**		
	David Overton was nominated as the Committee Chair. This nomination was seconded and approved.		
	AGREED: to appoint David Overton as the Audit Committee Chair for 2014/15.		
14.38	**DECLARATIONS OF INTEREST**		
	The Chair reminded those present to declare at the start of the meeting any interests in matters to be considered. No interests were declared.		
14.39	**WELCOME INTRODUCTIONS AND APOLOGIES FOR ABSENCE**		
	Apologies for absence were received from Patrick Green, Internal Auditors.		
14.40	**MINUTES OF THE MEETING HELD ON 26TH JUNE 2014**		
	AGREED: to approve the minutes of the meeting held on 26th June 2014.		

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There were no matters arising.

14.41 ACTION PROGRESS REPORT

The table was reviewed and an update provided in relation to activity.

- Item 1 – on the agenda
- Item 2 – scheduled for February 2015
- Item 3 – is included within item 8 on the agenda
- Item 4 – to be removed
- Item 5 – Committee membership. The Clerk confirmed that the Search Committee were attempting to progress recruitment but that they had not been successful to date. She agreed to raise again at the next Search Committee meeting.
- Item 6 – Louise Tweedie confirmed that this was outstanding. She indicated that she would review and email the Clerk an update.
- Item 7 – completed and on the agenda
- Item 8 – on the agenda.

AGREED: to note the update provided.

14.42 FE COMMISSIONERS REPORT – LESSONS LEARNED

Internal Auditors presented this training item and confirmed that the timing of this session was opportune given that the FE Commissioner had now issued an annual report which summarises the issues that she wishes to bring to the Committee attention.

She reminded that the publication ‘Rigour and Responsiveness in skills’ (April 2013) sets out the approach to interventions in FE and Skills, introducing a new independent FE Commissioner. The FE Commissioner does not have any statutory powers, however he has intervention powers. Through ‘Intervention in Further Education the strengthened intervention process’ (April 2014) the intervention process was described in detail. There are 3 trigger points where intervention by the FE Commissioner are appropriate:

- An inadequate OFSTED inspection and/or
- Failure to meet national minimum standards of performance set by BIS or DFE and/or
- An inadequate assessment for financial health and/or financial management and control by the funding agencies (SFA and EFA)

In addition to this a new trigger emerging is what are being called ‘coasting Colleges’.

During 2013/14 the FE Commissioner conducted assessments at 11 Colleges within England and a number of important items were identified:

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- Board structure – there appears to be no particular correlation between Committee or Carver models and bad/poor performance. There has been no clear best practice identified.
- Board skills and experience matching business needs rather than representation – some Colleges were found to be lacking in business and commercial skills.
- Refreshing Board membership – the recommendation is that 10 years is the maximum.
- SMT skills and experience – in some Colleges it was found that skills and experience were not at the level they needed to be and this is something that a Board needs to monitor carefully.
- Financial oversight and challenge – in some Colleges there was insufficient challenge regarding deficit budgets and forecasts. Governors need to be able to demonstrate challenge through the minutes of meetings.
- Effective clerking – in some Colleges this was simply an administration role.
- Balancing finance and compliance with student experience and quality – Board agendas need to give due focus and attention to both at appropriate times of the year.
- Managing staff costs as a proportion of income – 65% was given as a benchmark.
- Managing class sizes – harder now to gain efficiencies as there has been a cut in hours.
- Student recruitment.
- Accountability for improvement – governing bodies need to take ownership.
- Robust and realistic financial strategy – what is required is good realistic assumptions and an end of year analysis of any changes and differences.
- Board/Principals relationship.

In general discussion it was also confirmed that, in the annual report the suggestion was made that there could be a different approach to a setting quality other than OFSTED. One suggestion was a more peer based review like the HE sector. All acknowledged that OFSTED were likely to be resistant to this proposal.

In relation to the benchmark figure of 65% of staff costs as a proportion of income it was acknowledged that there is a need to know the split between teaching and business support staff etc. The use of partners and subcontractors also has an impact on the ratio with significant percentages influenced by differing college business models. One issue raised in the report was lesson observations, and the evidence during these that there was non compliance with processes established. The Committee were reminded that this was an issue noted here at WNC in the last years internal audit reports, however it was acknowledged that these issues were nowhere near the level found by the FE Commissioner.

When discussing class sizes it was felt that class sizes can often be a symptom rather than a cause. Curriculum offer needs to be well planned to maximise class sizes. It was acknowledged that class sizes impact upon financial returns and viability. It was felt that delivery models also influence efficiencies and that what was important was to get the 'right horse for the right course'. This has to be supported by the right level of delivery staff.

In summary she confirmed that the FE Commissioner has made it clear that Governors and the Board are accountable in terms of challenge and knowledge and that this will be an increasing focus for the future. It was noted that there was nothing in the summary presentation given referring to the importance of risk management. All agreed that this was critical given the turbulence in the sector and the frequent change in policies. What is key to enable the College to survive is to adapt and evolve.

AGREED: to note the content of the presentation provided.

14.43 **<u>INTERNAL AUDIT</u>**

1) <u>Annual report 2013/14</u>

Louise Tweedie introduced this item and drew members attention to paragraph 2.2 of the report which provides the audit opinion for 2013/14, she confirmed that a clean opinion had been given. She confirmed that the rest of the report simply summarises the work that has been undertaken and reported to this committee throughout the year.

AGREED: to note the content of the internal audit annual report 2013/14.

2) <u>Internal audit benchmarking report for 2013/14</u>

Louise Tweedie introduced this item and drew members' attention to page 26 which summarises the benchmark assurance opinions. She confirmed that there is nothing of concern that she wished to bring to members attention. She feels that WNC has a positive outcome compared to general FE in England. It was noted that the number of recommendations made remains above the average, however there is a positive trend with more low recommendations when compared to high and amber.

AGREED: to note the content of the benchmarking report presented.

3) <u>Internal audit plan 2014/15</u>

Louise Tweedie confirmed that following the last meeting she had met with management to review the plan. What is presented is a 3 year plan (albeit it was acknowledged that future years are subject to annual

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review and may be changed). Items planned for the year are:

1. Curriculum planning and management – the team will look at new provision, existing provision and the systems and processes in place.
2. Work related and employer responsive provision
3. Human resources and payroll – the impact and outcome, and the benefits of implementing new system
4. Governance and risk management
5. Key financial controls
6. ESF contracts
7. Framework for compliance with legal requirements - health and safety
8. Equality and diversity/ safeguarding arrangements
9. Follow up

In reviewing the planned dates the Committee asked that the ESF field work be brought forward, the general feeling was that April is too late. It was noted that the health and safety, equality and diversity and safeguarding fieldwork has already been completed with these reports scheduled to come to the next meeting.

In reviewing the plan proposed for 14/15, which commences at page 39 of the pack, Governors questioned how auditors get assurance that the curriculum meets the need of the location and the LEP. Louise Tweedie explained that auditors look at the process for gathering information and consultation and if done right then this should/will meet the needs. It was agreed that during audit they would look to see if there is any evidence of changes implemented in response to local/LEP needs and priorities. In addition they will also compare processes with other Colleges.

In terms of the ESF review it was acknowledged that there are a number of ESF contract issues in the sector. The regime is tighter and stricter and therefore absolutely must be a high priority and high risk area of provision. It was noted that the College is leading on a number of these contracts/projects but does not always deliver and therefore it is imperative that the College is satisfied regarding compliance. The Director of Finance explained that there were some 'vague' areas within the ESF contracts that are subject to interpretation and therefore in his opinion there is a high risk. The process and procedures are very bureaucratic and compliance checks are onerous. He explained that it is vital that the College complies or it could have some funding at risk in the future.

In general terms, subject to the change of fieldwork date for the ESF review the Committee were happy that the plan gives appropriate assurance to this committee so that they can then pass this on to the Board.

AGREED: to note and approve the internal audit plan presented for 2014/15.

4) Internal audit progress report 2014/15

Louise Tweedie introduced this item and simply provided a summary of where the team were in terms of fieldwork completed to date and matters planned in the diary.

AGREED: to note the update provided.

14.44 COMPOSITE COLLEGE RECOMMENDATIONS REPORT (INCLUDING REGISTERS) FOR 2013/14

The Director of Finance introduced this report and drew members' attention to the progress made in relation to 12/13 and 13/14 actions. In terms of the detailed update provided from page 47 onwards it was confirmed that the text in blue relates to items and actions that are still active, and green relates to items that are closed down. It was confirmed that Pro Observe is now being fully utilised to properly record information and makes tracking and monitoring much easier.

AGREED: to note the update provided.

14.45 2013/14 FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER

KPMG introduced this item and drew members attention to some key items:

- Page 3 & 4 summarises the audit work completed and confirmed a clean audit, both in terms of numbers and regularity.
- Page 4 summarises the headline financial position and records the deficit which is clearly influenced by VWS. They explained that one issue that needs careful monitoring is the breach of bank covenant detailed. It was explained that the bank are supportive and have issued a waiver letter however this should focus how important it is for the College not to be in a similar position in any future years. It was explained that the breach of covenant does give the bank the option to review the terms and conditions of the agreement and if it does all acknowledged that it may not be to the benefit of the College. The Director of Finance confirmed that in 14/15 there is the expectation that the College will hit the £7.5 million reserves requirement. To show good progress the bank want to see monthly management accounts and they will monitor the recovery during the year. It was confirmed that compliance with covenants is tested on an annual basis.
- In the 13/14 accounts full provision has been made for all VWS known liabilities. During 14/15 there will be some income transactions following the exit costs/income in relation to

dilapidations. The Director of Finance confirmed that the College does still have provision for expected dilapidation costs remaining from the dowry. In relation to the acquisition of VWS it was explained that, end to end, the College will be in a surplus position because of the increased future allocations. It was explained that, albeit it has been a difficult process, the College will end in a positive position.

- 14/15 is a critical recovery year.

The Director of Finance confirmed that he was in dialogue with the SFA regarding the end of year position. They are being reassured that the results are in line with forecast. SFA will reconfirm a 'satisfactory' financial health rating so as to avoid a financial notice to improve. Key is to demonstrate to the SFA and to the bank that there is a clear reason for the 13/14 results. They want to know that the cause has been identified and dealt with and that 14/15 shows the position is not continuing.

- Page 5 - more formally refers to items already discussed. It was acknowledged that this year there had been a much smoother audit than in the prior year.
- Page 6 – this deals with Vision Workforce Skills closure. Assurance was given that auditors had thoroughly reviewed any outstanding provision and liabilities.
- Page 8 & 9 summarises the two recommendations in relation to;
  a) Reconciliation of further education income to student data base
  b) Breach of loan covenant.
- Page 1 - confirms that there are no uncorrected audit differences identified. One corrected difference was made in relation to dilapidations expenditure.
- Page 12 provides a summary of the income and expenditure account.
- Page 13 is the balance sheet.
- Page 14 is the forecast for 2014/15.
- Pages 15&16 provide a summary of pension liabilities, it was noted that there has been an increase and this is similar throughout the sector. All agreed that it was a significant cost that was unfortunately out of the Colleges control. It was explained that the rising liability is as a result of demographic changes, inflation etc. The Director of Finance confirmed that the College is obliged to offer the schemes that are currently available and that there is nothing radical being done in relation to bringing about changes in the sector.
- Page 18 onwards provides a summary of sector updates.

AGREED: to note the content of the 2013/14 Financial Statements Audit Management Letter.

14.46	**<u>2013/14 DRAFT MEMBERS REPORT & DRAFT FINANCIAL STATEMENTS</u>**		
	The Director of Finance introduced this item and confirmed that what was presented was the Financial Statements for the year, he confirmed that they are produced in line with the required accounting standards. In reviewing the document some particular items were brought to the Committees attention. • Page 93 - this now includes a public benefit statement, he indicated that this was a new requirement set out in the SORP. • Page 97 - sets out the financial results for the year. It confirms the deficit and the impact of the VWS outturn. • Page 101 - summarises the principle risks and uncertainties, these are drawn from the Colleges' risk register. • Page 103 - summarises the key risks in relation to financial stability. At the current time one area to closely monitor is maintaining the confidence of College funders and stakeholders. • Page 108 - this sets out the statement of corporate governance and internal control. • Page 109 - is a list of Governors. • Page 111 - gives confirmation that the Audit Committee advises the Corporation on the appointment of internal, regularity and financial statements auditors and their remuneration for both audit and non-audit work. He confirmed that this was a new statement included. It was acknowledged that the ILR audit undertaken this year gives additional assurance to this Committee and to the Board. • Page 115 - is a statement of responsibilities of the members of the Corporation, there are no real changes. • Page 117 - provides confirmation from auditors of their independence.		
	• Page 119 - provides a summary of independent auditors reports on regularity to the Corporation, the Chief Executive and the SFA/EFA. It was noted that within this page there are references to the LSC, it was agreed that these need to be removed before the final version is signed.	Director Finance	4th Dec. 2014
	• Page 121 - is a consolidated summary of the income and expenditure account. In real terms the difference between yearend for 13 and yearend for 14 is £5 million, this is the loss generated by VWS. • Page 123 - is the balance sheet. Members' attention was specifically drawn to note 11 which explains why tangible assets have increased. It was confirmed that the Colleges position is still very liquid with strong cash balances. • Page 125 - is the notes to the accounts. He explained that these were longer than usual because of the TUPE transfer of staff to BKSB. • Page 30 – members' attention was specifically drawn to the yellow highlighted paragraph relating to distributable reserves of subsidiary companies. He explained that there has been some		

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changes to the Gift Aid rules as a result of a legal opinion. In the past payment of Gift Aid has been treated as an expense but is now considered to be a distribution. It is illegal to make a distribution that eats in to reserves and this will affect subsidiary accounts. What auditors have had to do is go back and make some small amendments to ensure that the Gift Aid sums are fully compliant. He explained that in the future the College could be in a position where subsidiary companies cannot Gift Aid all of their surpluses over and this will lead to some taxable profits for some subsidiary companies. There will be no impact over the next 3 years because the 13/14 losses can be carried forward to offset.

- Page 132 – it was noted that there were some high salary costs reported, these were in relation to VWS staff.
- Page 151 – Related Party transactions - it was specifically noted that the College utilised Birchwood Innovations Ltd to negotiate the main body of early exits and reduce dilapidations for the VWS properties. This is a property consultancy firm for whom Richard Ian Baggaley, a Governor, is a Director. Purchase transactions in the year amounted to £72,372 related to leasehold property surrender and completion. The balance at the yearend is nil.

Members were happy that the members report and financial statements were an accurate record of the year. It was agreed that the yellow highlighting at page 135 would be removed. Subject to the minor changes requested the Committee were happy to recommend that the Board approve the 2013/14 draft members report and draft financial statements.

AGREED: to recommend that the Board approve the 2013/14 members report and financial statements as presented.

14.47 **AUDIT SERVICES – ADDITIONAL (NON AUDIT) WORK UNDERTAKEN IN 2013/14**

The Director of Finance introduced this item and confirmed that during the last financial year, 13/14 the College did not commission any additional work that was not disclosed in the Audit Management letter. Members' attention was drawn to the policy regarding disclosure requirements in this area.

AGREED: to note the update provided.

14.48 **ILR AUDIT REPORT FOR 2013/14**

The Director of Finance introduced this item and confirmed that the ILR audit was a critical piece of work undertaken by the SFA. It is a funding audit. The last audit prior to this one took place in 2010. He explained that there are a number of triggers which lead to an ILR audit, of the triggers it is believed that 3 were causal factors;

a) Subcontractor whistle blowing allegations
b) VWS performance
c) Apprenticeship numbers.

He confirmed that auditors appointed on behalf of the SFA, Price Waterhouse Coopers LLP looked at ESF and advanced learning loans. The outcome was a relatively clean audit report. Key issue for this Committee and the Board is that there were not a significant number of errors. In terms of the errors found the adjustments were under the 5% tolerance level so there was no extrapolation. The Committee were reminded that the ASB provision is circa £23 million and involves a huge number of learners, in the 20,000 mark. 80 files were sampled and a -5% error rate was found and acceptable.

In terms of feedback following the audit, the team were satisfied that it was a relatively clean position and fundamentally the Committee can take this as a positive audit report. It was explained that this audit looks at an enormous data set and that the Committee and the Board should be pleased that the outcome shows that the College are getting it right.

AGREED: to note the content of the ILR audit report for 2013/14.

14.49 **RISK MANAGEMENT**

The Director of Communications, Marketing and Learner Engagement introduced this item and explained that there are very few changes to the substance of the risk register as this is very early in the year. Members attention was drawn to a number of key changes;

a) Risk priority 6 – the College positioning has been downgraded in terms of its risk scoring. This is largely as a result of management of reputation over the summer linked to VWS changes. This risk is now a medium risk on the Colleges' risk register.
b) Exec considered risks related to the property strategy and whist this is almost at its conclusion outstanding works still remain in relation to the Visual Arts Centre. It is anticipated that this risk will be deleted from the significant risk register in the new year.
c) Exec considered risks related to the Studio School, again these risks may well be downgraded/deleted in time, however it was felt the reputational risk associated with a Studio School at this time still warranted it remaining on the College risk register.

Subsidiary company risks – risk registers for both BKSB and Vision Apprentices were provided for information and key items noted;

a) BKSB carry no significant risks. Additional risks have been added related to their international developments since this was last presented to the Committee.
b) Vision Apprentices – the risks for Vision Apprentices are small however these will be discussed in detail at the next Board meeting and may well change as a result.

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The Health and Safety risk register was also reviewed. It is prepared by the Health and Safety team and details key risks associated with various College sites. It is perhaps unsurprising that Derby Road as the largest and most densely populated site has the highest risk score.

Members' attention was drawn to page 171 which summarises the key risks. It was confirmed that the Studio School has its own risk register which is presented to its Governing body.

Members' attention was then drawn to page 209 which summarises the Colleges' top 5 risks. The Director of Communications, Marketing and Learner Engagement explained the action and progress in relation to mitigating the risks. As a general comment the Committee did not feel that this document accurately explains the targets and position/performance. It was felt that it needs to be clearer that this relates to the group. In terms of the top 5 items additional comments were made:

- Quality – the Principal feels that in the RAG rating both sections should be red
- Work related training – a key item to monitor is financial outturn and performance regarding timely success (predicted rather than actual)
- Finances – it needs to be made clear that this is a KPI for the group. At the current time the College is behind but BKSB and VWS are positive.

AGREED: to note the update provided.

14.50 **ANTI FRAUD AND CORRUPTION REPORT 2013/14**

The Director of Finance introduced this item and drew members' attention to the whistle blowing allegations detailed at page 213. He explained that in 12/13 there were no incidents to report, however in 13/14 there were a number of whistle blowing allegations particularly in relation to partner activity. Members reviewed the detail provided and felt that the poor practices alleged regarding partners should have been picked up by the College. Governors were assured that there are now more robust systems in place and such activity if it occurred in the future would be picked up.

Members' attention was also drawn to the attempted fraud regarding an invoice payment. It was acknowledged that this is a common fraud attempted, fortunately the College was able to rectify the position. It was confirmed that internal auditors do review electronic fraud potential and that this is something to monitor very closely.

Members' attention was drawn to the key priorities identified for 2014/15 as set out on page 214.

AGREED: to note the update provided.

14.51 **AUDIT COMMITTEE ANNUAL REPORT FOR 2013/14**

Members reviewed the draft report presented which is a summary of the years activities. In reviewing the document a number of items were requested/suggested:

- The Clerk to look at page/paragraph numbering and ensure that it flows sequentially
- At paragraph 4.2 the final paragraph to read that during the year the College was subject to an 'attempted' fraud.
- At page 8 paragraph 8 the whistle blowing allegation should be included in any other matters.

Subject to these changes the Committee were happy to approve the content of the draft report.

AGREED: to approve the Audit Committee Annual Report for 2013/14. It was confirmed that the amended document would be presented to the Board at its meeting tomorrow.

14.52 **GOVERNANCE AND RISK MANAGEMENT – COLLEGE BENCHMARKING**

The Director of Finance introduced this item and circulated a page of pie chart information which compares the College with other general FE organisations. Key items noted:

- Sources of income – WNC has a high red section which means a large adult skills budget. This makes the College proportionately more susceptible to funding policy changes.
- Other non-pay expenditure – this is different to other organisations because of the use of subcontractors.
- Pay expenditure – 79% is teaching, 8% costs were restructuring in relation to the VWS exists.
- Total expenditure is influenced by both pay and non-pay costs. WNC pays 30% on 'other' which is subcontractors.

In terms of utilisation of this data it was confirmed that it can be used to influence what the College targets by way of diversification. He confirmed that it is used in budget processes but realistically it has limited scope because it depends on the accuracy of the data input.

AGREED: to note the update provided.

14.53 **AOB**

There were no items of additional business.

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The Chair took the opportunity to thank the Finance team, the Audit Committee and the auditors for all of their hard work in 2013/14.

Date of next meeting

The Clerk confirmed that the next scheduled meeting was 12^{th} February 2015.

Meeting closed at 7.35pm

Signed : ____________________________Chair Date: