

Minutes of the meeting held in DR172 Derby Road site on Thursday 30th November 2017 at 5 pm

MEMBERS PRESENT: Jamie Fryatt, meeting Chair
Lee Radford

ALSO IN ATTENDANCE: Maxine Bagshaw, Clerk to the Corporation
Andrew Martin, Deputy Principal/Director of Finance
Tom Stevens, Executive Director Capital Projects and Estates
Dame Asha Khemka DBE DL, Principal and Chief Executive
Louise Knott, Vice Principal: Communications, Engagement and Student Experience
Gavin Peake, Director of IT
Alasdair Coulson, KPMG
Louise Tweedy, RSM

Auditors confirmed that they did not wish to meet with members of the Committee without management present.

1 APPOINTMENT OF THE COMMITTEE CHAIR FOR 2017/18

In his absence David Overton, the 2016/17 Chair, was nominated for reappointment. This nomination was seconded and approved.

AGREED: to appoint David Overton as the Committee Chair for 2017/18.

It was agreed that for this meeting Jamie Fryatt would act as the Chair.

2 DECLARATION OF INTERESTS

The meeting Chair reminded everyone present to declare any interests that they may have. No interests save for standing declarations were noted.

3 WELCOME INTRODUCTIONS AND APOLOGIES FOR ABSENCE

Lee Radford was welcomed to his first meeting as a Committee member. Apologies were received from David Overton, Neil Robinson and Darren Wilkinson.

4 MINUTES OF THE MEETING HELD ON 29TH JUNE 2017

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

ACTION by whom	DATE by when

Signed : _____ Chair

Date:

AGREED: to approve the minutes of the meeting held on 29th June 2017.

There was one typographical error noted at page 14, second paragraph. There is an 'l' missing in the word College. The Clerk confirmed that she would make this small change as requested.

5 ACTION PROGRESS REPORT

Members reviewed the table and an update was given in relation to item 5. The Director of IT confirmed that the College runs penetration testing each year and that this year it will be both internal and external testing.

AGREED: to note the content of the update provided.

6 DATA PROTECTION REPORT (GDPR UPDATE)

The Director of IT introduced his report and set out the College's position in terms of responding to the new legislation. He explained that the difficulty is that this is a European law and it is being interpreted in the UK in steps, so monthly updates are being provided which then influences actions required.

Phase 1 of the Colleges response has been 'awareness raising', this phase will be complete this week and reasonable progress is being made. Internal auditors are scheduled to undertake audit testing in January 2018 which will give a really good understanding of any further actions required. The Information Commissioner's Office has issued a 12 point plan for businesses to prepare for the changes. This has been utilised by the College and broken down in to an action plan. Currently this is broken down in to 52 areas with 15 green, 18 amber and 19 red risks. Whilst satisfactory progress is being made against the plan, the current number of amber and red risks means that the overall College risk is being maintained at 'red' on the College's risk register. He confirmed that an update on the plan will be provided every two months to Governors so that they can receive the required assurance.

Dir of IT

Feb 2018

Q The Principal challenged the Director of IT and questioned how staff and the College can make sure that the work required is done efficiently, with less intensive human time required. She questioned whether it was possible to make use of machine intelligence. In terms of the latter the Director of IT explained that the College is part of a pilot scheme but that the use of machine intelligence is still very much in its early stages. The suggestion made was to look to see what other sectors are doing in terms of implementing the new GDPR requirements.

Q The Committee questioned whether the May 2018 deadline is achievable. The Director of IT confirmed that it is achievable in terms of structured data, however the unstructured data (papers etc.) would be considered at a later stage.

Signed : _____ Chair

Date:

He confirmed that there is a development session planned for Governors in January 2018 which will give them a better understanding of the implications and risks. It is also intended to present a report to the Board in April 2018 to explain the College's position immediately prior to the deadline date for readiness.

Dir of IT

Jan/ April
2018

AGREED: to note the content of the update provided.

7 INTERNAL AUDIT

Louise Tweedie from RSM Tennon introduced this item and a number of matters were considered

- 1) Key Financial Controls – she explained that this report follows three visits which are undertaken across the year. A green RAG rating has been given which means that 'taking account of the issues identified the Board can take substantial assurance that controls upon which the organisation relies to manage the identified risks are suitably designed consistently applied and operating effectively'. She indicated that there were only two improvement recommendations made following audit testing which is a very good outcome. Members considered the actions agreed and it was explained that both were something that has arisen because of capacity issues within the team.

AGREED: to note the content of the report provided.

2) Annual Report for 2016/17

Members' attention was drawn to page 55 of the pack. She confirmed a clean opinion in that the organisation has an 'adequate and effective framework for risk management, governance and internal control, however their work identified further improvements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective'. These recommendations are set out at page 62. These are a summary of the actions and reports shared with this committee throughout the 16/17 academic year. All agreed that it was pleasing to see no red RAG rated actions for the year.

AGREED: to note the content of the Internal Audit Annual Report for 2016/17.

3) Internal audit progress report for 17/18

Members' attention was drawn to page 67 which is a reminder of the work scheduled for the year. No onsite field work has yet taken place but it is planned between December 2017 and April 2018.

AGREED: to note the content of the update provided.

Signed : _____ Chair

Date:

8 **COMPOSITE COLLEGE RECOMMENDATIONS REPORT**

The Deputy Principal introduced this item and drew members' attention to the table on page 91, section 2.1. He advised that in terms of outstanding recommendations there are currently six actions to be implemented from 16/17, of which five are medium risk and one is low risk. Three of the actions relate to the apprenticeship programme and include the development and introduction of e-portfolio which is nearly complete, one other is to do with pricing and costings. In relation to the latter he explained that the team are getting the practicalities right before then developing the agreed policies and procedures. He advised that two of the actions still outstanding relate to key financial controls and have been picked up by internal auditors as part of their follow up work. He provided assurance that actions are being addressed but that there has simply been a delay in terms of financial team capacity and also the challenges seen and reported to the Board regarding Vision Business.

AGREED: to note the content of the update provided.

9 **2016/17 FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER**

The Deputy Principal advised that the College is not yet at the stage of having a Management Letter as it has not been possible to finalise the accounts because of the ongoing partner investigation. Putting the investigation aside, there have been no issues in terms of the audit work undertaken and the numbers included within the accounts.

He advised that the College is not in an unnecessary hurry to sign off the financial accounts as it wants to be able to resolve the investigation properly first. The impact of this is that the College may not be able to file the accounts by the deadline of 31st December with the ESFA. If it realistically believes that it cannot hit this deadline then an extension will be sought from the ESFA. The steps required to finalise the accounts include:

- a) Conclusion of the investigation;
- b) An analysis as to whether or not the outcome has an impact upon the accounts; and
- c) External auditors to then review any potential impact the investigation may have on their Management Letter.

AGREED: to note the update provided.

10 **2016/17 DRAFT MEMBERS REPORT AND DRAFT FINANCIAL STATEMENTS**

The Deputy Principal confirmed, as previously reported, that these are still very much draft. Minor changes have been agreed in terms of reconciliations. He reminded the Committee that the format of the accounts is as prescribed by the sector and key matters noted were:

Signed : _____ Chair

Date:

- Page 4 sets out the strategic objectives;
- Page 5 details how objectives will be implemented;
- Page 7 gives a summary of the financial position;
- Page 10 – the missing data in relation to student achievements can now be included;
- Page 11 sets out the key risks and uncertainties (and includes data protection);
- Page 17 is the statement of corporate governance and internal control;
- Page 18 sets out a list of Governors;
- Page 20 and 21 sets out the detail of the committees in place;
- Page 23 sets out the statement of going concern. He explained that it is this paragraph which may be impacted by the investigation;
- Page 21 sets out the statement on regularity;
- Page 25 is a summary statement of responsibilities of the Corporation;
- Page 26 and 27 are the two reports from KPMG which are yet to be received;
- Page 30 onwards are the actual numbers;
- Page 33 shows the cash flow.

As an overview he confirmed that the result for 16/17 are broadly similar to the prior year. Members' attention was particularly drawn to the balance sheet on page 32 where it was explained that the position still remains relatively weak in terms of liquidity as the College comes out of the capital development programme and also because of the pension deficit.

In relation to the pension deficit he advised that the actuaries, Barnett Waddingham, had been asked to look at the assumptions included within their calculations, particularly regarding wage inflection which was set at 4.2%. The College has argued that this is very high and was not in line with practices in the public sector. Actuaries have revalued the position and accepted the argument put forward and therefore there has been a small positive impact, however the real issue is the discount rate assumed and actuaries will not move their position on this.

The Committee accepted that what was being presented and considered by them today was not a final draft. They noted that the audit was largely complete save for the outcome of a partner investigation. It is expected that once the investigation is concluded and the impact is known then the accounts will go to the Board for approval.

The Committee considered the accounts in detail and queried why on page 44 the 'Group' premises cost figure is less than the 'College'. It was explained that this is because of a write back transaction in the Colleges subsidiary VWS. It was also clarified at page 55 that the total expenses paid to Governors for the year was £0.

Signed : _____ Chair

Date:

AGREED:

- a) to note the content of the draft Members Report and draft Financial Statements as presented; and
- b) note that these will be updated and presented to the Board for consideration once the outcome of the partner investigation is known.

11 AUDIT SERVICES ADDITIONAL NON-AUDIT WORK UNDERTAKEN IN 2016/17

The Deputy Principal introduced his written report and confirmed that the purpose of this report was to give assurance that, irrespective of any additional work undertaken, auditors remain independent. There have been 3 pieces of additional work undertaken:

- 1) A review of the College's subcontracting arrangements as required under the College Financial Memorandum. This work was commissioned following open competitive tender and was carried out in April of 2017. The work is an annual exercise and will be market tested each year (it was a tendered contract).
- 2) In November 2016 the College commissioned KPMG through the Consultancy One Framework following a further competitive tender to appoint and carry out field work in relation to a whistleblowing investigation under instruction from the ESFA. The College led this work on behalf of a group of six Colleges.
- 3) In June 2016 the College appointed KPMG to provide the field work in relation to the ongoing partner investigation. This followed a request for four quotations from a number of providers active in the market.

Alasdair Coulson provided assurance that KPMG undertake their own internal independence checks and that the works carried out in the year were not done by the same team who audit the Financial Statements.

AGREED: to note the update provided.

12 ESFA AUDIT OUTCOMES 2017

The Deputy Principal provided a verbal update and confirmed that the College this year was selected for an ESF audit in relation to match funded activity. The expectation was that the College would have a final visit in November 2017, however this has now been delayed until January 2018. There is not expected to be any funding impacts as a result of the audit testing works. There were a few points raised which need to be concluded but are mainly centred around publicity requirements. It is simply a matter of getting evidence together of adherence to publicity terms in the contracts. It is not envisaged that there will be a full written report prepared. It was confirmed that an update on this will be given to the Committee at its next update in February 2018.

AGREED: to note the update provided.

Dep. Prin. Feb 2018

Signed : _____ Chair

Date:

13 **RISK MANAGEMENT – COLLEGE RISK REGISTER FOR 2017/18**

The Vice Principal: Communications, Engagement and Student Experience introduced her detailed written report and the comprehensive register. She confirmed that the number one priority at the current time is Work Based Learning. The senior team have elevated the residual risk score until there is certainty regarding robust controls in place to mitigate risks. Assurance was given that there is a very comprehensive action plan in place and it is a matter of working through activity on a systematic basis.

Internal auditors are due to look at apprenticeship provision in January. The College may seek to extend the scope of their work to ensure a thorough review.

It was also noted that the outcome of the partner investigation may have an impact upon other risks, for example financial, HR, reputation etc. However, their risks scores have not been changed at this point in time as there are so many unknowns.

AGREED: to note the content of the report provided.

14 **FRAUD, IRREGULARITY AND WHISTLEBLOWING**

The Deputy Principal introduced his detailed report and confirmed that there were three reactive cases of suspected fraud or irregularity in 2016/17, full details of these were provided in the report. To mitigate such issues happening again it was explained that the partnership team are doing a lot more learner voice and extensive testing to check that the information provided by partners is accurate. The College is, in effect, learning with the benefit of hindsight. Assurance was given that the College remains diligent in terms of known and potential risks.

The Committee were reminded that a subcontractor audit is required by its funders. RSM have been advised that new guidance is to be issued and then the sector will have a three month window within which to carry out the audit work.

AGREED: to note the update provided.

15 **AUDIT COMMITTEE ANNUAL REPORT 2016/17 - DRAFT**

The Clerk to the Corporation introduced this item and the Committee considered their report on a paragraph by paragraph basis. It was noted that in relation to section 4 the content to be inserted is still outstanding and will not be available until KPMG have finalised their audit management letter.

Signed : _____ Chair

Date:

In section 9 the Clerk is to update and to confirm that there have been three rather two fraud, irregularity and whistleblowing investigations. Save for these minor changes the Committee were happy to approve the content of the Audit committees report for 2016/17 as presented.

AGREED to approve (subject to finalisation of the Audit Management letter) the Audit Committee Annual report for 2016/17

16 **COMMITTEE TERMS OF REFERENCE**

The Clerk introduced this item and confirmed that following advice from external auditors a number of minor amendments should be made. These are highlighted in red. The Committee were happy to put forward the recommendation to the Board that the Terms of Reference be updated as presented.

AGREED to recommend that the board approve the amended terms of Reference.

(Auditors, Gavin Peake and Louise Knott left the meeting at 6.10 pm)

17 **AUDIT SERVICES CONTRACT EXTENSION OR TENDER**

The Deputy Principal introduced this item and confirmed that the College regularly goes out to tender for both internal and external audit. The contracts for both services are currently on a 3 year basis, however there is the option in each to extend for a further year (3 +1 option).

The Deputy Principal's recommendation to the Committee is to exercise the additional year option on both contracts. He confirmed that the College has a good relationship with both sets of auditors and in his view it was unlikely that cost savings could be achieved as they are pretty similar across the firms that operate in the sector. The Committee all agreed that they had generally found auditors to be very helpful and that they did not see any significant benefit in not exercising the additional year option at this stage.

AGREED: to approve the recommendation that the contract for both internal and external audit services be extended by a further year as provided for in the contract terms.

18 **PARTNER INVESTIGATION**

The Committee agreed that they had discussed this fully earlier in the meeting. Regular reports have been brought to the Board and there is a dedicated meeting scheduled to receive an update on this in December. Given this position the Committee simply agreed to note the current challenges and risks.

Signed : _____ Chair

Date:

20 **ANY OTHER BUSINESS**

There were no items of additional business.

21 **DATE AND TIME OF NEXT MEETING**

The Clerk confirmed that the next scheduled meeting was 15th February 2018.

Meeting closed at 6.20 pm.

Signed : _____ Chair

Date: