



MINUTES OF THE AUDIT COMMITTEE
HELD ON TUESDAY 2 JUNE 2020 VIA MICROSOFT TEAMS

PRESENT:

Chris Johnson	Chair
Sajeela Mahmud	Member
Shru Morris	Member
John Whittaker	Member

IN ATTENDANCE:

Dr Fazal Dad	Principal and Chief Executive
Jennifer Eastham	Vice Principal: Finance and Corporate Services
Kashif Azeem	Assistant Manager, RSM – Internal Auditor
Helen Knowles	Audit Director, BDO – External Auditor
Jean Tracy	Clerk to the Corporation
Caroline Wilson	Note-taker

The meeting commenced at 17.20pm.

The Chair welcomed members to the meeting and introductions were made by those present.

1. APOLOGIES FOR ABSENCE

Apologies were received from Louise Mattinson, Lisa Randall (RSM) and Sam Hughes (BDO).

2. DECLARATION OF CONFLICTS OF INTEREST

The Chair advised those in attendance that should members of the Audit Committee become aware of any potential conflicts of interest, they should be disclosed at the earliest opportunity during the meeting.

No declarations were received.

3. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON TUESDAY 25 FEBRUARY 2020

The minutes of the Audit Committee held on Tuesday 25 February 2020 were **AGREED** as a true and accurate record and would be duly signed by the Chair¹.

4. MATTERS ARISING

There were no matters arising.

¹ Teams meeting as Covid-19

5. AUDIT COMMITTEE:

- **Meeting Dates 2020/21 and 2021/22**
- **Review of Calendar of Business 2020/21**

The Committee noted the previously agreed dates for 2020/21 and those proposed for 2021/22. The Calendar of Business 2020/21 had been reviewed and updated. It was noted that this was a working document and would be updated as necessary.

The Audit Committee approved the proposed meeting dates for 2021/22 and the Calendar of Business for 2020/21. These would be presented to the Corporation Board.

6. EXTERNAL AUDIT – AUDIT PLANNING: YEAR ENDING 31 JULY 2020

Helen Knowles (BDO) was welcomed to the meeting to present the External Audit Plan for the Year Ending 31 July 2020.

The Committee was guided through the External Audit Plan which provided an overview of materiality; key audit risks and the planned approach to these; the independence, timeline and the BDO team. The proposed fees for 2020 were in line with the tender. However, it was noted that an additional fee might be incurred in ensuring compliance with the new OfS Accounts Direction and FEHE Sorp 2019; the College would be advised.

The Audit Committee noted that the proposed materiality level remained consistent with the previous year and was agreed to be appropriate for the scope of the audit.

The Committee was further advised that under the International Standards in Auditing, BDO were required to consider the risks to an entity before assessing the mitigating controls in place within the organisation and the assessment of Audit Risks at the planning stage included:

- Going Concern (significant risk)
- Revenue recognition (significant risk);
- Management override of controls (significant risk);
- DB Pension scheme liability (normal risk).

Other matters which would also be considered as part of the External Audit included Related Party Transactions; Regularity Audit; Brexit; Fraud; Significant estimates; Internal audit; Laws and Regulations; Accounting Policies; Financial Statement disclosures; and Contingencies.

Going Concern had been elevated to 'significant risk' due to the potential impact of Covid-19. It was noted that this risk was not particular to the College and had been identified across the whole client base.

Further details on the risks and the work which would be carried out were contained in the Report and noted by the Committee. It was noted that the proposed timetable had been amended from the previous year to take account of the current plan that the audit would be carried out remotely. Helen Knowles confirmed that BDO had the systems and tools to deliver audits fully remotely.

The Principal and Chief Executive informed members of the Audit Committee that he received regular updates from the DfE in relation to Covid-19. To provide reassurance to members, he advised that a dedicated meeting of the Corporation Board had been arranged to consider and approve, as required, the College Re-Opening Plan. The meeting was intended to provide assurance to the Board that all the necessary risk assessments were in place and to provide the opportunity for the Board to consider the Plan in detail.

In answer to a question from the Chair, BDO confirmed that audit reports would be based on an individual risk approach, rather than changing all audit reports and that the default position would include *materiality uncertainty*, drawing attention to the potential impact of Covid-19 on the Going Concern Statement.

It was confirmed, in answer to a question from a member of the Committee, that the Barclays letter would need to be in place before the accounts were signed off and that a conversation had already taken place between the College and the Bank.

On consideration of the information provided, the Audit Committee **RECOMMENDED** the External Audit Plan for the Year Ended 31 July 2020 to the Corporation Board for approval, having noted that the fees included a CPI increase on the previous year in line with the tender proposal.

7. RISK MANAGEMENT POLICY – REVIEWED

The Vice Principal: Finance and Corporate Services presented the Report. It was noted that the policy and procedures had been reviewed and remained 'fit for purpose', there being only minor changes, and were therefore presented to the Committee for recommendation for approval for a further three years.

Having considered the Report, the Committee **AGREED** to recommend the Risk Management Policy 2020/21 – 2022/23 to the Corporation Board for approval.

8. AUDIT KEY PERFORMANCE INDICATORS 2019/20 UPDATE

The Vice Principal: Finance and Corporate Services provided an overview of the KPIs for the benefit of new members and presented an update on the Audit Performance Indicators for 2019/20 which assisted the Committee in assessing risk. Information on the key issues was provided, there being no 'red' with the exception of Covid-19 which was detailed in the Report.

A member of the Committee commented on the potential breach of covenants on the Barclays loan. The Vice Principal: Finance and Corporate Service provided an update, advising the Committee that Barclays had stated that they would not enforce a breach of covenant which was due to Covid-19 issues. If a breach occurred as a result of not being able to deliver commercial provision or to recruit because of Covid-19, Barclays had advised that the College talk to them in advance in order that an appropriate letter was in place and available should the College be challenged at year-end. However, the College's intention was to do everything in order that there was no breach.

The Vice Principal: Finance and Corporate Service reported that in the previous year an extension to the covenants had been requested but had not been needed. It was also noted that the challenges due to Covid-19 would be seen in a future reforecast.

The Audit Committee noted the performance against the approved Performance Indicators for 2019/20.

9. INTERNAL AUDIT REPORTS:

(i) INTERNAL AUDIT CODE OF PRACTICE – BRIEFING PAPER

The briefing paper provided RSM's response to the updated Internal Audit Code of Practice. The Code was intended to be applied alongside the existing International Professional Practices Framework and placed emphasis on the role and mandate of internal audit. Detail on the other requirements of the Code were contained in the paper and noted by the Audit Committee.

(ii) FE – BENCHMARKING OF INTERNAL AUDIT FINDINGS 2018/19

The paper provided a benchmark to enable the College to self-assess against all of RSM's further education clients and included data on the annual opinions RSM had provided at year-end.

(iii) COMPLIANCE WITH STUDY PROGRAMMES – WORK EXPERIENCE

It was noted that the audit had been completed just before lockdown. The Report provided 'substantial assurance' and a good level of compliance was noted. The Committee considered the key findings and the five low management actions.

(iv) BUDGETARY CONTROL – FINANCIAL PLAN FRAMEWORK AND PROCESS

This audit had also been completed prior to lockdown and had considered the control environment and processes in place concerning the annual budget setting process. It was also intended to confirm that controls had been established to ensure budget monitoring and budget reforecasting were undertaken to ensure the budget was a fair reflection of income and expenditure based on knowledge, current trends and the external market.

The Report provided 'substantial assurance' and a good level of compliance was noted. The Committee considered the key findings, the one low management action and the College's response to this. It was noted that the design and application of controls were good.

(v) SUB-CONTRACTING FRAMEWORK

It was noted that the audit had been delayed because of Covid-19. The Committee considered the Report which provided 'substantial assurance' and one low management action was detailed. It was again noted that the design and application of controls were good.

A member of the Committee asked about the remote audit and was informed on the way in which the College had worked well with RSM.

(vi) FOLLOW UP

The Committee received a Report which followed a Review on the progress made by the College to implement the previously agreed management actions for the Internal Audits that had taken place during the 2018/19 academic year and any outstanding from previous years.

The Report advised that good progress had been made in implementing the agreed management actions. 17/19 had been implemented and it was noted that the remaining two could not be completed as the evidence was held as hard copy onsite, and was thus not currently accessible.

A briefing paper 'Helping our Internal Audit Clients on the Road to Recover' had been included in the papers and provided information on some of the specific actions and proposed solutions as the move from lockdown continued.

(vii) PROGRESS REPORT

The Report provided a summary update on progress against the Internal Audit Plan for 2019/20 and summarised the results of the work undertaken by RSM. It was noted that RSM had delivered all assignments within the Plan and that as a result of the work undertaken, there were no common themes or issues which were likely to impact on RSM's annual opinion.

10. INTERNAL AUDIT PLAN STRATEGY 2020/21 – 2022/23 INCLUDING INTERNAL AUDIT PLAN 2020/21

The Committee received the Internal Audit Strategy 2020/21 – 2022/23 which incorporated the priorities for the 2020/21 Internal Audit plan, based on the analysis of the College's Risk Register in addition to other factors affecting the College for the academic year, including changes within the Sector.

Mr Azeem (RSM – Internal Auditor) talked the Committee through the reviews that had been proposed as part of the Internal Audit plan, including the Strategic Risks. These were:

- Student Target Setting and Tracking (ProMonitor) – to assess how the College ensures progression of students is tracked
- Governance – to review how the governance structure and reporting lines were operated to ensure transparency and effectiveness. The audit would also consider the flow of data to ensure it was appropriate, duplication was minimised and that escalation routes were clearly defined and reflective of the approach undertaken during College closure linked to Covid-19.
- Human Resources: Performance Management – following on from the Sickness Management Framework review undertaken in 2019/20, the review would consider the wider HR framework in relation to performance management and the personal development appraisal process.
- Key Financial Controls: Student Loans and Advanced Loans Administration
- Academic Quality – to consider how the Academic Quality framework was developed, monitored and reported against
- Health and Safety – to consider how the College monitored and reported compliance against health and safety polices

It was noted that changes to the Plan could be considered throughout the year and amended as necessary.

The Chair question why the two key areas – Health and Safety and Performance Management – were the cheapest. Mr Azeem explained that the skills and expertise required for these audits were available from existing staff and that subject matter specialists were not therefore required. It was noted that Health and Safety would look significantly different and it was suggested that the timing and remit of future audits be reviewed on completion of the 2020/21 audit.

In answer to a question from a member of the Committee, Mr Azeem explained how the Audit Plan was prepared. He also confirmed that benchmark data for 2019/20 would not be available until later in the year as some audits had been delayed because of lockdown.

The Internal Audit Strategy 2020/21 – 2022/23, including the Internal Audit Plan for 2020/21 was **RECOMMENDED** to the Corporation Board for approval, noting the comments regarding Health and Safety.

11. INTERNAL AUDIT – ACTION POINT STATUS (PROGRESS TOWARDS COMPLETION OF RECOMMENDATIONS)

A Report, providing an update of progress towards the completion of recommendations following the Internal Audits which had been undertaken, was received by the Committee. An overview was provided for new Committee members.

The Committee noted that at the time of writing, nine actions remained ongoing (8) or outstanding (1), five of which were not yet due. The action relating to Budgetary Control was to be discussed in order to agree a process which would satisfy the auditors but which would not create additional work to that already in place. The detail of each recommendation, agreed management action and the update to date were included in the appendix.

The Audit Committee acknowledged the update provided.

12. RISK MANAGEMENT – RISK REGISTER

The Committee considered the Report which provided an update on the issues that were included in the College' Risk Register.

The impact of Coronavirus across the College, College finances, Government funding, recruitment, retention, quality, student results, staff morale and well-being was noted. In addition, a new risk had been added due to the Structure and Prospects Appraisal that was being undertaken to determine the future of St Mary's College which was based less than a mile from College.

The Audit Committee **AGREED** the Risk Register.

13. FINANCIAL MANAGEMENT CONTROL AND EVALUATION (FMCE)

Previously a statutory return to the Skills Funding Agency (predecessor of the Education and Skills Funding Agency), the Committee received a Report which provided detail on how financial management and control (including Governance) was exercised at the College. Whilst this was not a mandatory return, it was noted that most colleges continued to undertake the annual review as good practice.

The report had been 'RAG' Rated (Red, Amber, Green) and members were advised that there was one item that had been rated as 'Amber', all other being 'Green'. Commentary to support these ratings was detailed within the Report.

On consideration of the Report, the Audit Committee **RECOMMENDED** the Report to the Corporation Board.

14. RSM: COVID-19 FRAUD RISKS – EDUCATION SECTOR – COLLEGE RESPONSE

The Report provide a response on the fraud risks highlighted by RSM. The College had met or had in place all of the actions/mitigation suggested for 12 of the 13 key fraud risks; one final action was required on the Cyber Fraud risk to take this to 'Green'.

The Committee discussed the 'Amber' item and received an explanation of the authorisation process operating in the Finance System.

15. COMPLIANCE

- **Code of Good Governance for English Colleges**
- **RSM – A Best Practice Guide for Audit Committee**

The Committee received a Report which provided an update on the College's compliance against the Code of Good Governance for English Colleges.

(i) Code of Good Governance for English Colleges - The Clerk to the Corporation reported that of the 122 points of compliance, 112 were completed in full, six were not applicable and four were completed in part. The Clerk to the Corporation talked members through those areas which were not yet complaint and advised that the College would continue its work on the compliance against the nine points which were completed in part.

(ii) RSM – A Best Practice Guide for Audit Committee – A Review of the 41 areas of best practice identified within the 'RSM Turning Lights Green – Best Practice Guide for Audit Committee' had taken place. The Clerk to the Corporation reported that 39 had been completed in full and two were not applicable.

The Audit Committee noted that the Report would be presented to the Governance Panel at its meeting on 22 June 2020 and did not make any recommendations on changes prior to it being reported to the Corporation Board at its meeting in July 2020.

16. AUDIT SCHEDULE 2019/20 AND 2020/21

The Audit Committee received, for information, details of the Internal and External Audit Schedules for the 2019/20 and 2020/21 academic years.

17. DATA RETURNS MONITOR REPORT 2019/20

The Audit Committee received a Report, for information, that confirmed the College was compliant with regard to Data/Funding returns for the academic year 2019/20.

18. ANY OTHER BUSINESS

There were no items discussed under Any Other Business.

19. REVIEW OF MEETING

Members were thanked for their attendance and contribution at the meeting.

20. DATE AND TIME OF NEXT AUDIT COMMITTEE MEETING

Tuesday 22 September 2020 at 5.00pm.

Signed:

Date: