

## ANNUAL REPORT OF THE AUDIT COMMITTEE – 2019/20

### Purpose

The purpose of this report is to detail the work of the Audit Committee over the course of the financial year 2019/20, alongside the work carried out by the Internal Auditors RSM and the External Auditors BDO. In addition, this report provides assurances to the Corporation Board and the Principal/Chief Executive, as Accounting Officer for the College, that they can have adequate confidence that the audit processes and procedures are effective within the College.

### Membership of the Committee

During 2019/20 the Committee membership was as follows:

John Whittaker (*Co-opted Member*)  
Chris Johnson (Member, Chair from 5 July 2019)  
Louise Mattinson (*Co-opted Member*)  
Sajeela Mahmud (from 6 December 2019)  
Shru Morris (from 1 April 2020)

The Clerk to the Committee during the period was Jean Tracy, Clerk to the Corporation.

In order to comply with the Terms of Reference for the Audit Committee, the Committee had previously considered whether or not to invite the Principal, other senior College staff and representatives from the auditors to attend the meeting. It has been agreed that the Principal and Vice Principal – Finance and Corporate Services are invited to attend in their capacity as the senior management lead on Audit and Risk.

Representatives from both Internal and External Audit are also invited to attend each meeting.

A copy of the Terms of Reference for the Audit Committee as at 18 October 2019 is attached as **Appendix One**. The document shows the tracked changes to the Terms of Reference which took effect during the academic year 2019/20 (which was simply SFA to ESFA).

### Meetings

The Committee met on four occasions during the year, all meetings were quorate:

24 September 2019  
19 November 2019  
25 February 2020  
2 June 2020

Attendance at the meetings by the Governors was 93% when excluding vacancies on the Committee, individual attendance is detailed in **Appendix Two**.

A representative from the External Auditors attended two meeting and representatives from the Internal Auditors attended three meetings.

## Committee’s Effectiveness and Terms of Reference

The Committee was established by the Corporation Board to conduct a range of activities that would provide appropriate assurances to the Corporation in terms of how the College manages risk and secures efficiency and effectiveness in its use of resources.

The Audit Committee includes members who have recent, significant and relevant financial experiences. In accordance with the Post 16 Audit Code of Practice (February 2019), the Committee’s Terms of Reference were reviewed, amended and approved by the Corporation Board on 5 July 2019. The Audit Committee undertook its usual annual review of its Terms of Reference in September 2020, and the next annual review will take place in September 2021. Training opportunities are made available to members who wish to update their skills and knowledge in accordance with emerging themes. The Committee is active in its monitoring of internal and external reports and challenges both the College and Audit representatives to ensure that it is satisfied with the effectiveness of the controls in place. The Committee is closely involved in the production of the internal audit annual plan and undertakes monitoring activity and an evaluation of the effectiveness of the plan throughout the year.

A series of performance indicators have been developed covering areas of work relevant to the committee. Progress in relation to these indicators is reported to each meeting.

The Committee has an annual calendar of business and at each meeting, reviews progress in relation to the implementation of the internal and external audit recommendations.

The Chair of Audit Committee updates the full Corporation Board with the work of the Committee at each meeting.

In line with best practice, the Committee reviews its ‘Terms of Reference’ on an annual basis.

The Committee operated to the following Terms of Reference (which are also attached as Appendix One) with evidence being presented as follows:

Terms of Reference	How this is evidenced
<p>1. To assess and provide the Corporation with an opinion on the adequacy and effectiveness of the College’s audit arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency on the institution and the safeguarding of its assets.</p>	<p>The Committee provides an Annual Report to the Corporation Board in addition to regular monitoring of key reports as part of the schedule of business throughout the year. Monitoring activity includes independent reports by the internal and external auditors alongside those provided by officers on key or emerging issues throughout the financial year. As part of the Annual Report, the Committee provides the Corporation with its opinion on adequacy and effectiveness</p>
<p>2. To advise and support the Corporation in explaining, in its annual accounts, the measures taken to ensure it has fulfilled its statutory and regulatory responsibilities.</p>	<p>The External Auditors attended Audit Committee in November and provide this assurance.</p>
<p>3. To advise the Corporation on the appointment, reappointment, dismissal and remuneration of the financial statements and regularity auditors and other assurance providers, including internal auditors, and establish that all such assurance providers adhere to relevant professional standards.</p>	<p>On an annual basis, the performance of the financial statements, regularity and internal auditors is assessed against a set of agreed performance measures. Following this evaluation, the Committee considers and makes a formal recommendation to the Corporation Board in terms of the appointment, re-appointment, dismissal and remuneration of the financial statements and regularity auditor and the internal auditor. The Committee recommended to Corporation that both RSM and BDO were re-appointed for 2019/20.</p>

Terms of Reference	How this is evidenced
4. To advise the Corporation on the scope and objectives of the work of the financial statements auditor, the funding auditor (where appointed) and the internal audit service.	For the financial year 2019/20 BDO acted as the Financial Statements Auditors. The Financial Statements Management Letter for 2018/19 was considered by the Committee and subsequently by the Corporation Board December 2019. RSM acted as Internal Auditors.
5. To inform the Corporation on the provision of any additional services by the financial statements, regularity and other audit and assurance providers, and to explain how independence and objectivity were safeguarded.	Formal reporting mechanisms are in place to ensure that the Committee is able to inform the Corporation if any such instances arose.
6. To ensure effective co-ordination between the internal audit service (where appointed), the funding auditor (where appointed) and the financial statements auditor including whether the work of the funding auditor should be relied upon for internal audit purposes.	Both the Internal and External Auditors are invited to attend meetings of the Committee and are present during consideration of reports that have been conducted by both functions. The Committee positively challenges the work carried out by the separate audit functions in order to satisfy itself that it can rely on the work and opinions provided by each audit function.
7. To consider and advise the Corporation on the audit strategy and annual internal audit plans for the internal audit service.	RSM were the Internal Auditors for 2019/20. The strategy, scope and objectives of internal audit work was considered and recommended by the Committee to the Corporation Board at its meeting on 3 July 2020 with regular progress monitoring reports during the financial year.
8. To advise the Corporation on internal audit assignment reports and annual reports and on control issues included in the management letters of the financial statements auditor (including their work on regularity) and the funding auditor (where appointed), and of any reports submitted by other providers of audit and assurance services to the college, and management's responses to these.	During the course of the year, the Committee considered seven Internal Audit reports, including a Follow Up Report. The subject and outcomes of which are detailed in the next section.
9. To consider and advise the Corporation on relevant reports by the National Audit Office (NAO), the SFA and other funding bodies, and where appropriate management's response to these.	The Committee considered changes to the audit and assurance regimes arising from new provision in the Education and Skills Funding Agency's Financial Memorandum and the Post 16 Audit Code of Practice as relevant.
10. To monitor, within an agreed time scale, the implementation of agreed recommendations relating to internal audit assignment reports, internal audit annual reports, the funding auditor's management letter and spot check reports (where appropriate) and the financial statements auditor's management letter, and	Recommendations relating to Internal and External Audit reports are monitored at each meeting of the Committee.

Terms of Reference	How this is evidenced
<p>of any reports submitted by other providers of audit and assurance services to the college.</p>	
<p>11. To establish, in conjunction with college management, relevant annual performance measures and indicators, and to monitor the effectiveness of the internal audit service and financial statements auditor through these measures and indicators and decide, based on this review, whether a competition for price and quality of the audit service is appropriate.</p>	<p>The Committee annually approves the performance measures and indicators for the internal audit services and the External Auditors. Performance is monitored and informs the Committee and subsequently, the Corporation's view on the future appointment to these functions.</p>
<p>12. To produce an annual report<sup>1</sup> for the Corporation, summarising the Committee's activities relating to the financial year under review, including:</p> <ol style="list-style-type: none"> <li>a) A summary of the work undertaken by the Committee during the year</li> <li>b) Any significant issues arising up to the date of preparation of the report</li> <li>c) Any significant matters of internal control included in the reports of audit and assurance providers</li> <li>d) The Committee's view of its own effectiveness and how it has fulfilled its terms of reference</li> <li>e) The Committee's opinion on the adequacy and effectiveness and efficient use of resources, solvency of the institution and the safeguarding of its assets</li> <li>f) Submit the annual report to the Corporation before the statement of corporate governance and internal control in the annual accounts is signed</li> </ol>	<p>An annual report is prepared to these requirements, and approved by the Committee in the Autumn Term each year. Once finalised, the report is submitted to the Corporation and Accounting Officer.</p>
<p>13. To oversee the College's policies on fraud, irregularity and whistleblowing, and ensure:</p> <ol style="list-style-type: none"> <li>a) The proper, proportionate and independent investigation of all allegations and instances of fraud and irregularity</li> <li>b) That investigation outcomes are reported to the Audit Committee</li> <li>c) That the external auditor (and internal auditor if applicable) has been informed, and that appropriate follow-up action has been planned/actioned</li> </ol>	<p>No allegations were received in 2019/20.</p> <p>The Audit Committee and the College's Internal and External Auditors received update reports on those allegations which had been received prior to 2019/20:</p> <ul style="list-style-type: none"> <li>• Work placements in UCBC – as previously reported to the Audit Committee, the College's Internal Auditors undertook an audit in May 2019 which confirmed that 11 of the 14 recommendations had been implemented. The remaining actions related to the move to new system –</li> </ul>

<sup>1</sup> A copy of the Audit Committee's Annual Report will be submitted to the relevant funding body with the annual accounts.

Terms of Reference	How this is evidenced
<p>d) That all significant<sup>2</sup> cases of fraud or suspected fraud or irregularity are reported to the appropriate funding body</p>	<p>'Connect' – have now been implemented.</p> <ul style="list-style-type: none"> <li>• HE – 26 September 2019 – Audit Committee informed that investigation completed, appeal received and not upheld; the matter was closed. Audit Committee to receive a final report to confirm that all recommendations have been actioned at the September 2020 meeting.</li> <li>• Estates/Maintenance – 26 September 2019 – Audit Committee informed that the investigation had been completed and no appeal lodged. Update report provided to Audit Committee at its meeting on 19 November 2019. Audit Committee to receive a final report to confirm that all recommendations have been actioned in September 2020.</li> </ul>
<p>14. To be informed of all additional services undertaken by the internal audit service and the financial statements auditors and the funding auditors (where appointed) and explain how independence and objectivity were safeguarded.</p>	<p>Mechanisms are in place to ensure that the Committee would be informed of any additional services conducted by the Internal Auditor and External Auditors.</p> <p>No additional services were utilised during the year.</p>
<p>15. The Committee must ensure that its activities are restricted to Governance and that members do not adopt an executive role.</p>	<p>This can be evidenced from the minutes of the meetings.</p>

### Adequacy and Effectiveness of the College's Audit Arrangements

The College appointed BDO as External Auditors and RSM as Internal Auditors for the 2019/20 financial year.

The fee for RSMs Internal Audit Service for 2019/20 was £21,150 plus VAT and the fee for BDO External Audit service was £27,750 plus VAT, with a further £780 for the Teachers' Pension Audit. The strategy scope and objectives of both the Internal and External Auditors work was agreed by the Committee and by the Corporation and activities were completed in line with the annual plans for 2019/20.

A total of six Internal Audits, plus a follow-up audit were undertaken during the year. All reports were considered by Audit Committee who reviewed and approved the recommendations and associated management responses arising from these reports during the year, with all reports being presented to the meeting on the 2 June 2020, details as follows:

<sup>2</sup> From the Post 16 Audit Code of Practice 2016 to 2017, "significant" is usually where one or more of the following factors are involved:

- There is likely to be great public interest because of the nature of the fraud or the people involved
- The sums of money are in excess of £10,000
- The particulars of the fraud are novel or complex
- The fraud is systematic or unusual in nature

Assignment	Executive lead	Assurance level	Actions agreed		
			L	M	H
Governance - Office for Students (OfS) Improvement Plan (1.19/20)	Jennifer Eastham, Vice Principal – Finance and Corporate Services	Substantial Assurance [●]	2	0	0
Progress Observations Framework (2.19/20)	Jennifer Eastham, Vice Principal – Finance and Corporate Services	Reasonable Assurance [●]	1	3	0
Sickness Management Framework (3.19/20)	Jennifer Eastham, Vice Principal – Finance and Corporate Services	Reasonable Assurance [●]	4	4	0
Compliance with Study Programmes – Work Experience (4.19/20)	Jennifer Eastham, Vice Principal – Finance and Corporate Services	Substantial Assurance [●]	5	0	0
Budgetary Control – Financial Plan Framework and Process (5.19/20)	Jennifer Eastham, Vice Principal – Finance and Corporate Services	Substantial Assurance [●]	1	0	0
Sub-Contracting Framework (6.19/20)	Jennifer Eastham, Vice Principal – Finance and Corporate Services	Substantial Assurance [●]	1	0	0
Follow Up (7.19/20)	Jennifer Eastham, Vice Principal – Finance and Corporate Services	Good Progress [●]	2	0	0

The Committee also monitored progress against the recommendations arising from the work of the internal auditor, with an updated report being reviewed at each meeting. The Internal Auditor also spent two days reviewing recommendations from previous years were implemented.

### **Processes for the effective and efficient use of resources,**

The Audit Committee at its meeting on 29 November 2019, considered the Financial Statements Management Letter for the 2018/19 financial year and noted that there were no significant accounting and audit issues at the College. After discussion on the financial statements audit, the Committee agreed that it was recommended to Corporation on 6 December 2019. This practice will be completed for the 2019/20 financial year at the meeting of the Audit Committee on 17 November 2020 and the opinion of the Committee and any matters arising will be reported to the Corporation at their meeting on 11 December 2020.

### **The solvency of the institution and the safeguarding of its assets**

In 2019/20, the College has budgeted for a small surplus, the forecast outturn shows that a loss of c£846k will be delivered, this is due in the main to under recruitment on Higher Education courses and the impact of COVID19 on commercial and apprenticeship recruitment. Whilst the solvency of the institution and the safeguarding of its assets are not immediately impacted (as the College continues to generate cash), the Committee has considered and is satisfied that the measures implemented following the outcome of the audit are appropriate and robust mechanisms to manage future risks to the institution of this nature.

### **Framework of Governance**

The College has in place a range of governance mechanisms that enable compliance with national funding and audit requirements and regulations. The Committee, as part of their annual schedule of business considers a range of governance related activities that are conducted by College staff, the internal audit service and external auditors.

### **Risk management and control**

Over the course of the financial year, the Committee considered a number of reports relating to risk management and control. Whilst maintaining a focus on the College's risk strategy, the outcomes of regular review of the College's risk register are reported to each meeting of the Committee which enables Governors to assess the College's responsiveness to current and future risk.

## **Fraud**

Whilst no instances of fraud have occurred during the 2019/20 financial year, management remain vigilant to ensure that the College governance and operational mechanisms are tailored towards early detection, investigation and action.

## **Whistle Blowing**

No allegations were received in 2019/20.

The Audit Committee and the College's Internal and External Auditors received update reports on those allegations which had been received prior to 2019/20:

- Work placements in UCBC – as previously reported to the Audit Committee, the College's Internal Auditors undertook an audit in May 2019 which confirmed that 11 of the 14 recommendations had been implemented. The remaining actions related to the move to a new system – 'Connect' – have now been implemented.
- HE – 26 September 2019 – Audit Committee informed that investigation completed, appeal received and not upheld; the matter was closed. Audit Committee to receive a final report in September 2020 to confirm that all recommendations have been actioned
- Estates/Maintenance – 26 September 2019 – Audit Committee informed that the investigation had been completed and no appeal lodged. Update report provided to Audit Committee at its meeting on 19 November 2019. Audit Committee to receive a final report in September 2020 to confirm that all recommendations have been actioned.

## **Conclusion and Recommendations**

The Internal Audit reports and the Financial Statements Management Letter have been considered, proposed recommendations monitored and areas of weakness addressed. During all these considerations account has been taken of the appropriate regulations and guidelines and Codes of Practice and they have been found to have been adhered to.

***The Committee have found no evidence impropriety.***

Therefore the Audit Committee is of the view that it has operated effectively and fulfilled its obligations as identified in its Terms of Reference. It is also of the opinion that the College's audit arrangements, the internal control systems, value for money policy and procedures, financial controls, framework of governance, risk management and control are adequate, operating effectively and its processes secure economy, efficiency and effectiveness and can be relied upon.

***Jennifer Eastham***

***Vice Principal – Finance and Corporate Services***

**SIGNED:** \_\_\_\_\_



**Chris Johnson Chair of the Audit Committee**

**Date : 22 September 2020**

Appendix 1 - Audit Committee Constitution and Terms of Reference  
Appendix 2 – Audit Committee Attendance Statistics



**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

A note has been added to show the change made in October 2019.

**MEMBERSHIP**

1. The membership of the Committee will be six members, three of whom must be Governors.
2. Membership will exclude the Chair of the Corporation, Principal and Chief Executive, members of the Policy and Resources Committee and Staff Governors.
3. The Committee should maintain its independence and objectivity in appointing members.
4. The Board will seek to appoint at least one member with relevant experience who is not a member of the Corporation and members will include individuals with an appropriate mix of skills and experience to allow the Committee to discharge its duties effectively. Collectively, members of the audit committee should have recent, relevant experience in risk management, finance and audit and assurance.
5. The internal auditor shall be entitled to attend and speak at all meetings of the Committee (but not to vote) as shall the financial statements auditor and funding auditor (where appointed) where business relevant to them is being discussed. Senior management will also be invited to attend meetings of the Committee, particularly where their area of responsibility is under discussion, and shall be entitled to speak at such meetings but not to vote.
6. The Committee may invite the Corporation's advisers or other third parties to attend meetings of the Committee as appropriate (such persons shall not have a vote but shall be entitled to speak at the meetings).
7. The Committee shall be entitled, whenever it is satisfied that it is appropriate to do so, to go into confidential session and (subject to the rules of quoracy set out below) to exclude any, or all, participants and observers, except the Clerk to the Committee.
8. The Committee shall be granted rights of access to obtain all the information it considers necessary from whatever source to fulfil its remit, and to consult the internal audit service and financial statements auditor and funding auditor (where appointed) directly.

**SECRETARY**

The Clerk to the Corporation will act as secretary to the Committee.



## **QUORUM**

The Quorum for the Audit Committee will be three members

## **MEETINGS**

The Committee will meet at least once each term and, as a minimum, will consider the items of business as currently set out in the Audit Code of Practice 2019/20.

## **ATTENDANCE POLICY**

Members should make every effort to attend Committee meetings. Should a Board member fail to attend three consecutive meetings without the approval of the Committee, the Committee may request the Corporation to withdraw membership of the Committee from the individual concerned. A co-opted member of the Committee shall cease to be a member where (s)he does not attend any meeting for a period of longer than six months, or has been absent for three consecutive meetings, or for any other reason at the sole discretion of the Board, unless that failure is for a reason previously approved by the Committee.

## **CONFLICT OF INTEREST**

Members are reminded of their obligation to declare any involvement in any item on the agenda that give rise to a potential conflict of interest.

## **TERMS OF REFERENCE**

1. To assess and provide the Corporation with an opinion on the adequacy and effectiveness of the College's assurance arrangements, framework of governance, risk management and control processes and its processes for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets.
2. To advise and support the Corporation in explaining, in its annual accounts, the measures taken to ensure it has fulfilled its statutory and regulatory responsibilities.
3. To advise the Corporation on the appointment, reappointment, dismissal and remuneration of the financial statements and regularity auditors and other assurance providers, including internal auditors, and establish that all such assurance providers adhere to relevant professional standards.
4. To advise the Corporation on the scope and objectives of the work of the financial statements auditor, the funding auditor (where appointed) and the internal audit service.
5. To inform the Corporation on the provision of any additional services by the financial statements, regularity and other audit and assurance providers, and to explain how independence and objectivity were safeguarded.
6. To ensure effective co-ordination between the internal audit service (where appointed), the funding auditor (where appointed) and the financial statements auditor including whether the work of the funding auditor should be relied upon for internal audit purposes.
7. To consider and advise the Corporation on the audit strategy and annual internal audit plans for the internal audit service.

8. To advise the Corporation on internal audit assignment reports and annual reports and on control issues included in the management letters of the financial statements auditor (including their work on regularity) and the funding auditor (where appointed), and of any reports submitted by other providers of audit and assurance services to the college, and management's responses to these.
  
9. To consider and advise the Corporation on relevant reports by the National Audit Office (NAO), the SFA and other funding bodies, and where appropriate management's response to these.
  
10. To review and consider the reports of and to monitor, within an agreed timescales, the implementation of agreed recommendations relating to internal audit assignment reports, internal audit annual reports, the funding auditor's management letter and spot check reports (where appropriate) and the financial statements auditor's management letter, and of any reports submitted by other providers of audit and assurance services to the college.
  
11. To establish, in conjunction with college management, relevant annual performance measures and indicators, and to monitor the effectiveness of the internal audit service and financial statements auditor through these measures and indicators and decide, based on this review, whether a competition for price and quality of the audit service is appropriate.
  
12. To produce an annual report<sup>3</sup> for the Corporation, summarising the Committee's activities relating to the financial year under review, including:
  - a) A summary of the work undertaken by the Committee during the year
    - b) Any significant issues arising up to the date of preparation of the report
    - c) Any significant matters of internal control included in the reports of audit and assurance providers
    - d) The Committee's view of its own effectiveness and how it has fulfilled its terms of reference
    - e) The Committee's opinion on the adequacy and effectiveness of the Corporation's assurance arrangements, framework of governance, risk management and control processes for the ~~and~~ efficient use of resources, solvency of the institution and the safeguarding of its assets
    - f) Submit the annual report to the Corporation before the statement of corporate governance and internal control in the annual accounts is signed
  
13. To oversee the College's policies on fraud, irregularity, impropriety and whistleblowing, and ensure:
  - a) The proper, proportionate and independent investigation of all allegations and instances of fraud and irregularity
    - b) That investigation outcomes are reported to the Audit Committee
    - c) That the external auditor (and internal auditor if applicable) has been informed of investigation outcomes and other matters of fraud, irregularity and impropriety, and that appropriate follow-up action has been planned/actioned
    - d) That all significant<sup>4</sup> cases of fraud or suspected fraud or irregularity, theft bribery, corruption, irregularity, major weaknesses or breakdown in the accounting or other control framework are reported to the ~~SFA~~ ESFA as soon as possible

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<sup>3</sup> A copy of the Audit Committee's Annual Report will be submitted to the relevant funding body with the annual accounts.

<sup>4</sup> From the Audit Code of Practice 2016 to 2017, "significant" is usually where one or more of the following factors are involved:

- There is likely to be great public interest because of the nature of the fraud or the people involved
- The sums of money are in excess of £10,000
- The particulars of the fraud are novel or complex
- The fraud is systematic or unusual in nature

e) Risks around fraud have been identified and controls put in place to mitigate them

14. To be informed of all additional services undertaken by the internal audit service and the financial statements auditors and the funding auditors (where appointed) and explain how independence and objectivity were safeguarded.
15. The Committee must ensure that its activities are restricted to Governance and that members do not adopt an executive role.

In addition, the Committee will have the power to:

1. Investigate any activity within its terms of reference.
2. Access all the information and explanations it considers necessary, from whatever sources, to fulfil its remit
3. Obtain external professional advice

The Audit Committee will report direct to the Corporation.

Last Reviewed: 18 Oct 2019

Last Amended/Approved by Audit Committee: 18 Oct 2019

Last Approved by Board: 18 Oct 2019

### Audit Committee Attendance Statistics 2019/20

<b>Name</b>	<b>No of Meetings</b>	<b>No of Attendances</b>	<b>% Attendance</b>
Chris Johnson (Chair from 5 Jul 2019)	4	4	100
Sajeela Mahmud (from 6 Dec 2019)	2	1	50
Shru Morris (from 1 Apr 2020)	1	1	100
Louise Mattinson (Co-opted)	4	3	75
John Whittaker (Co-opted)	4	4	100
<b>Total</b>			<b>93 (excluding vacancies)</b>
Principal and Chief Executive	4	4	100
Vice Principal – Finance and Corporate Services	4	4	100
BDO	4	2	50
RSM	4	3	75