

CORPORATION BOARD AUDIT COMMITTEE



Minutes of a meeting held on Wednesday 27 November 2019 at Abingdon Campus at 12.15pm

Present

Ali Kennedy
Darren O'Connor
Stephen Vickers
Nicolas Pagès

In attendance

Maureen Boyle, Vice Principal
Mark Lay, Finance Director
Darren Bailey, Head of Finance
Ros Caffyn, Head of Finance elect
Stuart McKay, MHA MacIntyre Hudson
Nick MacBeath, TIAA
Ruth Reavley, Clerk
Nick Handy, Chair of the Board's Finance & General Purposes Committee

Governor questions are represented with bullet points, and management responses are italicized.

1. Opening comments, apologies for absence and new declarations of interest

Ali Kennedy was elected by the Committee to chair the meeting in the absence of the chair-elect, Adam Mumford. Ros Caffyn, Stephen Vickers and Nicolas Pagès were welcomed to their first meeting. Darren Bailey was thanked for his work for the Committee. Nick Handy was welcomed in his capacity as F&GP chair, to contribute particularly to the Financial Statements discussion from an F&GP perspective. Apologies had been accepted from Adam Mumford, who was unwell. Ali Kennedy declared an interest in business item 8ii, as the Company for which she works, Sophos, provides hardware and software to the College.

Since the last meeting, and noting recent and immediately forthcoming changes to membership, the Committee had reviewed and self-assessed its skill set, and was satisfied that that collectively it has recent and relevant knowledge and experience in risk management, finance and assurance.

2. Election of a Committee Chair

Adam Mumford had indicated his willingness, in absentia, to be elected as Committee Chair. He was unanimously elected for a two-year term. Darren O'Connor was elected to chair the meeting.

3. Minutes of the meeting held on Tuesday 11 June 2019

A correction, that Maureen Boyle had attended, was agreed. The amended minutes would be signed.

4. Matters arising from the meeting held on 11 June

There were no further agenda items requested. Completion of actions was noted.

5. Self-Assessment of Financial Propriety and Regularity Questionnaire, 2018-19

The Committee recommended the 2018-19 Questionnaire was signed by the Chair and the Accounting Officer.

6. Letter of Representation

The Finance Director introduced the paper.

- Were any non-standard representations included? *No, none.*

The Committee recommended the Letter to the Board for signature.

7. Draft Financial Statements 2018/19

The Committee were invited by the Chair to consider issues arising from the audit process, and to review the draft with regard to governance and internal controls.

i) Audit Findings Report

Stuart McKay advised that, in fulfilling a Corporation Tax review in 2019/20, the MHA MacIntyre Hudson in-house team were not on the Audit team, thus safeguarding independence of advice and protecting the Board against conflict of interest. The College was seeking to diversify and expand its commercial activity.

The Auditors had considered the governors' view of "going concern". Following their investigations, they had concluded they had no concerns.

The Report had incorporated new requirements for disclosure of pay and remuneration of Senior Executives, and reporting of the ratio between highest paid and median average. The FE sector expected further steps related to senior pay transparency, given the drive from the Office for Students.

With respect to pension liability, Stuart McKay advised the Committee that, notwithstanding the McCloud ruling and recent debate on Guaranteed Minimum Pension, as the estimated movement in the liability (£40,000) did not exceed 0.1% of the total defined obligation, the College did not need to disclose it.

The Chair of F&GP noted that both LGPS and TPS liability had been discussed previously by the Committee. The College treatment has impact on the Profit and Loss and Balance Sheet presentation, and the Committee is satisfied this is appropriate. Other Governors agreed that bringing in a contingent liability without the ability to accurately calculate a number was not helpful. Governors noted that the ESFA was content with this approach, and that MHA MacIntyre Hudson was not aware of any FE College treating the matter differently in the Financial Statements.

- Ref. section 4.5.2, with respect to deficiencies in internal control, how realistic was the management response with respect to IT equipment? Would it be possible to track IT equipment? *The IT team does have records, but currently they are not tied back to the Fixed Asset Register held by the Finance Team. The assets are a mix of leased and owned. The verification exercise was not starting from scratch so it was concluded that it was a viable undertaking.*
Might an alternative approach be considered, by examining invoices over the past 5 years, and depreciation?
Whilst some assets will be of nil net book value, there was a duty under Charity law to safeguard assets still held.
- Ref section 4.5.3 Could this be built into the annual Value for Money review and report? *The finance team is very vigilant and has an excellent operational relationship with the College bankers to identify and rectify matters. It was a matter of documentation of existing practices.*

With respect to the Advisory points, MHA MacIntyre Hudson were offering similar advice to many FE Clients on Bursary funds.

Governors held a detailed discussion on risk appetite in response to the commentary provided. Stuart McKay offered a four-fold typology: no appetite articulated, no need for one; single overarching risk appetite; appetite broken down by operational or risk area; broad risk appetite statement related to strategic objectives.

Governors agreed further reflection was appropriate. It was suggested that risk appetite was a proxy for the threshold (after controls are in place) above which the Board may want to see further mitigations. Depending on the risk scored in the risk register, the aim might be to further mitigate to amber, or to green.

The need for a College risk appetite statement was considered. It may be appropriate to articulate appetite for some risks including reputational damage and for financial loss. It may be appropriate to consider grouping similar risks in a “bucket”. There was a difference to be drawn between fundamental risks and operational risks. Could the Senior Management Team articulate their views? *That was possible, but it would be helpful to understand what is acceptable to governors.*

At the moment, the statement in the Risk Register is, effectively, that the Board distinguishes between its threshold of risk for safeguarding matters of ESFA funding exposure, at a different scale to, for instance, capital development activity. The Red-amber-green rating indicates what is acceptable to the Board – it is not just a number.

It was agreed that the committee would include agenda items on governor oversight and implementation of the risk policy, and on risk appetite, at the next Committee meeting, with a view to taking a recommendation to the Board.

Stuart McKay recommended that the Board and College document their response to the “Bourneville” ESFA letter in the course of 2019/20. *The response could be added in the Regularity and Propriety Questionnaire – see business item 17 of the agenda.*

ii) Financial Statements

- Concern was expressed that the Reserves Policy appears a little lightweight. Stuart McKay differentiated between the standard expected for FE and that for a Registered Charity which does not have Excepted status. An FE College has a “going concern” requirements, whereas Registered Charities have “protect for the future” requirements. *The statement of the reserves policy would be revisited for the 2019/20 accounts, though given the requirements for FE Colleges, it may not need to be changed.*
- Following discussion of the positioning of the final two paragraphs of the Related Party transactions (Note 22), it was agreed not to move them to the paragraph on emoluments (page 40).
- Was it the case that there were no staff other than Key Management Personnel with salaries in excess of £60,000? *Yes that was so.*
That could be stated in the Accounts. *That change would be made.*

The Chair of F&GP reported that the Committee had considered the tone of the statement of corporate governance and internal control, and regulatory, propriety and compliance, and approved the tone and content.

There had been discussion of the KPIs on page 7. On balance they were considered to be appropriate, but that the relationship between them and the Balanced Score Card should be reviewed for 2019/20, in order to strengthen the presentation of core KPIs. The Committee had accepted the definition of “student achievement” underlying the chart on page 8. They had required that the final sentence of the Agency arrangements (page 38, in the Accounting Policies section) be removed, as it was not a policy. The Committee had otherwise recommended the document to the Board.

The Audit Committee recommended the document to the Board, with the amendments as recorded.

Action	Who by	deadline
Add risk policy refinement to the next Audit Committee Agenda, with particular regard to governor oversight and implementation, and to overall College risk appetite. (ref. Audit Findings Report 2018-19, para 6.4 Advisory Points)	Clerk, Finance Director	Next Audit Committee
Add College/Board response to the ESFA “Bourneville letter” to the Regularity & Propriety Questionnaire 2019-20	Clerk, Head of Finance	For November 2020
Revisit the reserves policy statement in the 2019/20 accounts	Finance Director	Financial Statements preparation, 2019.20
Add statement in Key Management Personnel section that no other staff receive salaries in excess of £60k	Finance Director	Urgent, pre-Board amendment.

8. Internal Auditor’s Reports and Update

8.1 Annual subcontracting audit

The Chair of F&GP reported discussion at F&GP in response to heightened ESFA concern about sub-contracting in the sector. The F&GP Committee would be receiving termly (rather than annual) reports, which reflected the ESFA’s expectations of board oversight. It remained important to separate F&GP ‘s role and Audit ‘s role with respect to subcontracting.

8.2 Cybersecurity

With respect to the declared conflict of interest, the Committee agreed that, as there was nothing in the report which required Sophos to supply kit or support to the College, it was appropriate for Ali Kennedy to remain in the debate, and to act as “cyber interpreter” for the Board.

The judgement of “limited assurance” was noted. Governors considered the Recommendations line by line. Seven “Important” recommendations had been made. The Chair of the meeting had discussed both the recommendations and management responses in detail with the Head of IT and the Finance Director, prior to the meeting. There were unbudgeted cost implications to consider.

Governors noted that the report concluded that the College maintains a good level of cyber situational awareness through induction and development day training. Computers are securely configured, and there are appropriate restrictions to administrative control and potential malicious web content. Ali Kennedy observed that the report emphasised cybercrime, yet most issues arise through error and lack of understanding.

Data Loss Prevention – a detailed discussion took place. There was some cross-reference to the mobile device management section as a similar kind of risk.

- Governors acknowledged the potential reputational risk. Does the Committee agree with the Management view that an expenditure of £70,000 was disproportionate? The Management team needed to understand the risk, articulate their appetite for this risk, and communicate well with governors. Reputational risk was a subjective area and management should consider clarifying how they view this risk in the context of data protection.

- Some data sets are more sensitive than others. Which ones present serious reputational risk? *There is a Data Assets Register which gives such definitions. It is not joined up to the Internal Audit report.* Governors need to worry about the “Daily Mail” test at a granular level. How are the highest risk data sets controlled? Are any kept on an un-networked PC in a locked room, for instance?

The Committee requested more sensitivity analysis on Data Loss Prevention, to be made available at the next meeting.

Vulnerability scanning – the Committee noted the finding and management comments.

Administrator account security – a detailed discussion took place. Ali Kennedy disagreed with the finding. It did not align with current National Cyber Security Centre (NCSC) guidance with respect to frequency of change of passwords, complexity of password and a password safe guidance. She agreed systems administrators should have 2-factor authentication. *A solution which worked for Cloud and Server had yet to be identified.* Password safes helped to manage multiple complex passwords.

- Was the College insurance policy in jeopardy? *It was not.*

Nick MacBeath (TIAA) was unaware of the NCSC report, and suspected that the in-house review team were also unaware. Ali Kennedy provided a copy. She commended NCSC as a source of best practice and a suite of guidance resources.

Security Information and Event Manager software Penetration testing by outsiders breaking in had been done. Penetration by someone inside the system breaking through had not been tested. The operational constraints around designing an effective test were noted.

The Committee required that the Management response was revised to capture this point.

Mobile Device Management Recognising that the College has no way to erase data on privately owned devices, that providing all staff with mobile devices to access O365 is cost prohibitive, and that enforcing encryption on privately-owned devices cannot be enforced, a compromise was necessary.

Further protection was suggested: oblige staff to record the loss of a personal device; require PIN and fingerprint passcodes for privately owned mobile devices used to access O365; train staff on the steps to be taken to enable them to remotely erase data. Encourage use of free password vault software as recommended by NCSC.

- Were governors getting too involved in operational matters now? Ali Kennedy responded that these matters had been discussed between her and the Head of IT and Finance Director.
The Finance Director reported that the Senior Management Team had much confidence in the Head of IT over both systems and security matters. IT was a prime example of balancing effort/resource against risk.
- Was there a Data classification – what must not be let out of the building? *That is captured on the Data Asset Register.*

The Committee requested that the College Data Protection Panel revise the response to this matter, to contextualise the response. Attention to be paid to types of O365 user (administrators, staff, students) and risk by data set, the work to be led by the Finance Director.

Incident management - the Committee noted the finding and management comments

Phishing email threat – in some institutions, the Staff Disciplinary process was involved for repeat offenders. *That does not fit the College staff culture.* But it would be helpful to link this to the SMT setting out appetite for risk in this area as previously discussed. *Many Hourly Paid Lecturers do not attend College Development days as they are not paid to do so, and thus miss training. The Head of IT is aware.*

Cyber Essentials Accreditation – If the college aspires to attain this, then Ali Kennedy recommended alignment with NCSC guidance (see Administrator account security discussion above). Ali Kennedy recommended following Cyber Essentials tools, which are good and in the public domain in the first instance.

The report would be re-issued once management responses had been revised.

8.3 Follow-up Audit

The Committee approved dropping two “no longer applicable” recommendations. 2-18/19 outstanding matters would be brought into future reporting.

8.4 Learner Number Compliance Review update

The Committee noted the cover-note account.

Action	Who	When by
More sensitivity analysis on Data Loss Prevention	Data Protection Panel, Finance Director	Next Audit Committee meeting
Senior Management Team rationale on reputational risk related to data loss prevention	SMT	Next Audit Committee meeting
Clarify Security and Information Event Manager software response re: penetration tests carried out from outside the system	Finance Director	immediate
College Data Protection Panel revise the response to the Administrator account (recommendation 3) and Mobile Device Management items (recommendation 5)	Finance Director	immediate
Issue revised report	TIAA, Finance Director	In due course

9. **Internal Auditor’s Annual Report and KPIs**

Governors noted a “reasonable assurance” had been given. The report did not cover separately commissioned work. The report would be appended to the Audit Committee Annual Report to the Board.

Action	Who	When by
Append Internal Auditor’s Annual Report to Audit committee Annual Report for Board	Clerk	immediate

10. Progress on actions from previous internal audit recommendations

Governors accepted that future reporting would be captured by the Finance Director updating an online tool run by TIAA, rather than the Finance Director's workbook. There were gains for both TIAA and the College to sharing real time tracking.

11. Risk Management

Governors noted two new risks added to the High Level Register. They recognised that further work on risk appetite could lead to the Register being updated.

The Register was recommended to the Board.

Action	Who	When by
Add High Level Risk Register to Board Agenda	Clerk	immediate

12. Annual Reports

12.1 Value for Money

The report was approved

1.2 Anti-Bribery

The report was recommended to the Board

Action	Who	When by
Add Annual Anti-Bribery Report to Board Agenda	Clerk	immediate

13. Draft Audit Committee Annual Report

The Report was approved, subject to quotations from the Internal Audit Annual Report and Financial Statements documents being added.

Stuart McKay offered a Board Self-Assessment Questionnaire for consideration for 2019/20.

14. CEO and Accounting Officer of the ESFA's letter on subcontracting

Governors noted the increased level of scrutiny announced, and steps taken by the Senior Management Team in response. Governors agreed to schedule more regular updates to ensure there are no concerns, both at Audit and at Finance & General Purposes Committees. Governors would clarify the nature of scrutiny for each committee.

Action	Who	When by
Specification of oversight of subcontracting reviews at F&GP and at Audit	Clerk	asap
Add subcontracting review to business cycle	Clerk	asap

15. Policies

The revised Whistleblowing Policy was recommended to the Board.

Action	Who	When by
Add revised Whistleblowing policy to Board Agenda	Clerk	immediate

16. Future Business Support presentations

A suggestion that presentations might be shared by both Audit and F&GP Committees was considered. It would require scheduling the two meetings to run consecutively. The suggestion was discarded, as being too unwieldy.

There was interest in a presentation from the BIT team (one person) and the Estates & Capital Development team.

Following discussion about what such a presentation might involve (understanding how decisions are made, how the team works with the policies and procedures), the Vice Principal reminded governors that the presentations had in the past presented a team membership overview and self assessment and quality improvement analysis. What was being described was more like the “in depth” visits (e.g. on Apprenticeships) which governors had undertaken on occasion recently.

Governors noted that the next in-depth visit was on Student Service, in Spring Term. Nicolas Pagès would follow up his interest in Estates on a 1:1 basis. No presentation would be scheduled for Spring Term.

17. Start of year draft Regularity & Propriety Questionnaire

The document was noted. That questions could be changed by the ESFA mid-year was noted. The response on payments in respect of termination (page 5) could be strengthened – reference should be made to the procedure and steps to report to Board. Reference should be included on the College response to the “Bourneville letter”.

Action	Who	When by
Strengthen the response related to payments in respect of termination – refer to policy/procedure; add appropriate wording on response to “Bourneville letter”	Finance Director/Clerk	November 2020

18. Future business, date of next meeting, reflection

A change to the published meeting date was agreed. The committee would meet at 2.15pm on Thursday 12 March 2020, at Abingdon Campus.

The proposed business was noted.

Governors agreed that the meeting should be a “standard” meeting. Members may, according to the Instrument and Articles, attend via telephone/video link if essential. Physical presence was much preferred.

A comment was made that 200 pages of reading was a significant demand on committee members. However, the quality of papers was appropriate to governors’ needs.

The Chair closed the meeting by thanking Darren O’Connor for his contribution as a co-opted member of the Committee since June 2013, which had been greatly appreciated.

Responding, he reported that a colleague was considering the open invitation from the Board to co-opt to the Committee.

The meeting closed at 2.10pm.

Signature

Date