

## CORPORATION BOARD AUDIT COMMITTEE



Minutes of a virtual meeting held on Tuesday 9 June, 2020 at 6pm

### **Present**

Adam Mumford, Chair  
Nicolas Pagès  
Stephen Vickers

### **In attendance**

Mark Lay, Finance Director  
Jenny Craig, Vice Principal  
Ros Caffyn, Head of Finance  
Ruth Reavley, Clerk  
Fiona Gay, SMT PA, work-shadowing  
Stuart McKay, MHA MacIntyre Hudson (to the end of item 5)  
Yasmeen Mehmood, TIAA Client Manager

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

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

The Chair welcomed members to the virtual meeting. The Board had determined that meetings would be held remotely during the Covid-19 pandemic. He thanked Ali Kennedy for chairing the previous meeting in his stead. There were no new declarations of interest.

The Chair reviewed the decision-making behind the cancellation of the March 2020 meeting: termly meetings were not required by any of the governing documents; none of the planned business was time-sensitive; the finance team had been heavily engaged in preparation of the new ESFA Integrated Financial Model for Colleges at the point when Audit papers would have been prepared. The proposal to cancel had been discussed between the Board Chair, Principal, Committee Chair, Finance Director and Clerk. Members had approved the proposal.

The Clerk had received an email from Ali Kennedy offering her apologies as her broadband connection was failing.

### **2. Minutes of the meeting held on 27 November 2019**

The minutes were approved for signature.

### **3. Matters arising from the Minutes not covered elsewhere on the agenda, and Action tracker**

The paper was discussed. Deferring the review of Risk Appetite to coincide with the new Strategic Plan was unanimously supported. The Finance Director reported that a draft report from TIAA on risk management, which had not yet been considered by the Senior Management Team (SMT) proposed encompassing risk appetite into the risk register. The report would be considered by the Committee in due course.

The Finance Director noted work was still outstanding in response to the Data Loss Prevention Internal Audit report. The Head of IT was progressing tasks. That governors needed to understand the key data areas in College, the risks, and the materiality of those risks, was noted.

The report was noted.

Action	By Whom	Deadline
Add ICT Review of Cyber Security Internal Audit update to next agenda (carried forward from item 8, 27 November 2019)	Clerk	For next meeting
Ensure 2019 Regularity & Propriety questionnaire responses cover points raised by the CEO of the ESFA's letter to Chairs of Governors in July 2020, referring to Bourneville College (minutes, 27 November 2019, items 7 and 17)	Clerk	For November meeting

#### 4. Performance Review of External Auditors

The performance review was noted, and Stuart McKay thanked for the work of his team.

#### 5. Financial Statements Audit Strategy & Timetable year end 31 July 2020

Stuart McKay highlighted key areas for Audit Committee member consideration.

MHA MacIntyre Hudson had undertaken a small piece of ad hoc work for the College related to corporation tax liabilities. The independence of the audit was not compromised. The proposed audit of Teachers' Pension Agency matters is an extension of standard audit work.

MHA MacIntyre Hudson had determined that a second Partner would review all college audits, in response to both Financial Reporting Council standards and Covid-19 challenges. This additional service would be free of charge to colleges.

Materialist provision was unchanged, at 1-2% of income, with a material and non-trivial threshold also unchanged at 5% of income. These thresholds were considered to be appropriate and were accepted by the Committee.

Audit Committee members noted that MHA MacIntyre Hudson had factored in a closer examination of Learner Numbers, as it had not proved practical for internal auditors to examine this area remotely during the Covid-19 pandemic.

The Strategy was agreed by the Committee for recommendation to the Board.

Mr McKay updated governors on other relevant developments:

##### The new ESFA Accounts Direction, and SORP 2019

All colleges of which he was aware had exercised their freedom to delay adoption of the Charities SORP (FRS 102) (2019), as this College had done. The Office for Students (OfS) now requires colleges receiving HE funding from it to adopt it. The new features are chiefly around sector pay, with greater disclosure required. Colleges also need to note early warning of notification on carbon reporting, which is to be included effective from year ended 2021.

"Going concern" was a key area of attention. Mr McKay reported on a recent ESFA Audit Forum to update governors on sector developments.

##### ESFA Audit Forum, June 2020

The ESFA had called the Forum primarily to check that Audit companies were expecting to meet the ESFA Financial Statements July 2020 submission date of 31 December 2020, despite the challenges of the Covid-19 pandemic. Auditors' responses were to challenge the ESFA on the necessity for them to confirm 16-19 funding in order that auditors could offer assurance on going concern. Confirmation of Adult Education Budget and apprenticeship funding was also critical.

The ESFA reported that they were aware of a number of colleges breaching their bank covenants. Mr McKay confirmed his awareness that the College was in contact with the Bank over the matter.

The Audit company had considered their operation in the event of a second Covid-19 spike. Given that auditing continued remotely in the current conditions, no additional problems were anticipated. Virtual working does require an agreed communications protocol with clients to ensure efficiency.

The OfS requires Financial Returns to be submitted by 30 November 2020, out of alignment with the ESFA.

A Bulletin was expected from the ESFA, to indicate what it expected to see on Covid-19 adaptations to normal operations. At present early indications of expectations were:

- Impact on, and adjustment to, normal operations
- Plans in place for longer term sustainability
- Impairment of financial statements (for instance loss of value of property and other assets).

Governors discussed these matters, with Mr McKay's responses italicised.

- Would the College be jeopardised by the cessation of some internal audit work because remote working was inappropriate? *MHA MacIntyre Hudson would extend its work to check controls and extend the sample of investigations. Learner Number Records is the greatest area of concern, and completeness of accounting for income was key. Risk-based site visits could complement remote working.*
- Is there anything in particular the Auditors would like to see with respect to the College's discussions with the Bank on covenants? *Ideally Banks would issue a written waiver, which is a contractual obligation. Written correspondence indicating this would provide comfort. A further ESFA Forum is planned for July, where clearer indications were expected.*  
*The Finance Director reported that he held monthly meetings with the Barclays Relationship Director, and forecasts of income, expenditure and cash have been shared. He understood that Barclays would be producing written guidelines. It was possible that the ESFA would offer a guarantee in this area.*

Governors thanked Mr McKay for his update. Though he would normally attend the meeting in full, circumstances were such that he left at this point.

## **6. Internal Audit Reports and Update**

Yasmeen Mahmood highlighted key areas for governors.

Assurance Review of Governance - performance monitoring An assessment of "substantial assurance" had been issued. The single recommendation to link the Balanced Scorecard KPIs more closely to the Strategic Plan was to be addressed in developing the new Strategic Plan. Governors welcomed the inclusion of Appendix B, which presented an example of KPI/Strategic Plan linkage.

Assurance review of Safeguarding An assessment of "reasonable assurance" had been issued. No urgent or priority recommendations had been made. Two routine recommendations had been addressed.

Risk Management The report was in draft, and so had not been issued to governors. There were no major priority findings of concern.

Financial Controls Fieldwork would be completed in the next few weeks.

Data Assurance No significant issues had been identified. The work linked to the Cyber Security Report received by governors in November, on which further work was ongoing.

Learner Number Systems Governors noted that remote working was inappropriate for the internal audit of Learner Number Systems. This matter had already been accommodated in the MHA MacIntyre Hudson Financial Statements Audit plan.

Subcontracting Certificate Fieldwork was scheduled for the 3<sup>rd</sup> week in June, to meet the ESFA submission deadline of 31 July.

There were no further questions on the Governance and Safeguarding reports, which were approved.

Governors noted that three further reports were due in the next few weeks, which would complete the 2019/20 programme.

Action	By Whom	Deadline
Circulate TIAA reports on Risk Management, Financial Controls and Data Assurance to governors, as requested by the Chair	Clerk	When reports are available

## 7. Internal Audit Strategy & Programme 2020/21

Yasmeen Mahmood highlighted key areas for governors, drawing attention to the proposed fundamental review areas outlined. The Finance Director reminded governors that there was provision for supplementary commissioned internal audit work, should governors identify a need which is not met in the rolling plan.

- Noting that the Audit Strategy aligns to the key risks facing the College, the Chair noted that adaptation might be necessary to meet emerging circumstances. He welcomed the inclusion of audit of business contingency planning and of the admissions process.
- Given that globally there have been 4 epidemics in the past 4 decades, the most recent of which has involved adding new risks to the College risk register, and had tested business continuity planning, the proposed TIAA appraisal review of business continuity was welcome. *The College has a crisis management group which regularly develops and tests scenarios. On curriculum and student-facing issues, the “lessons-learned” exercise will be captured in the College Self Assessment Report, which is reviewed by the Curriculum, Quality and Student Committee prior to Board approval.*

The Strategy and Programme were recommended to the Board for approval.

Action	By Whom	Deadline
Add Internal Audit Strategy & Programme 2020/21 to the Board Agenda for July	Clerk	For July meeting

## 8. Internal Audit – progress of actions on previous internal audit recommendations

Governors noted the report had not been verified by TIAA. The Finance Director reported that JISC, which supplies digital technology support for the sector, had strengthened its cyber security levels. The College IT Manager had reported that the College had not experienced any notable increase in cyber attacks in the past 3 months.

- In their business contexts, there had been a marked risk in phishing email and in illegitimate portrayal of institutions such as the Health & Safety Executive.
- Governors expected the College to prioritise the outstanding actions in the context of College business continuity work. *The draft Data Assurance audit seen by the Finance Director gave assurance in this matter, as Vulnerability Scanning and Security Information and Event Management (SIEM) are largely looking for the same thing.*

The report was approved.

## 9. Annual Subcontracting Review

As this was the first Annual Subcontracting Report, the Finance Director sought Governors' views on whether the report covered the ground they expected and needed.

- Is there College-level concern, or is this a sector-wide matter? *Some colleges have far larger exposure to subcontracting fraud. This College receives only 5% of its total turnover from subcontracting; the matter is not material, split across the Adult Education Budget, High Needs provision through Oxfordshire County Council, and Apprenticeships delivered by one large-scale employer locally, which was due to end early in 2020/21. The exposure was of the order £150-200k contribution. The Clerk commented that subcontracting abuses were highlighted in the ESFA Investigation Report into Bournville College published in July 2019, which had triggered a letter to all Corporation Board Chairs from the CEO of the ESFA, setting out expectations for regularity and propriety.*

The report was noted.

## 10. Risk Management

The reports were taken as read. Additional high level risks, arising both from Covid-19 and other challenges faced by the College, were noted.

A suggestion that the term "Corona Virus Risk" was altered to read "Pandemic Risk", as a more generic title, was accepted by the Finance Director.

Governors noted that the SMT would consider a suggestion from TIAA that an additional column be included in the Whole College Risk Register capturing Board attitude to risk. This may become a RAG rating related to the number and impact of controls to mitigate each risk.

- Referring to the risk in the Land-based Industries and Construction Technologies (LICT) business area of accidental death of a student, how is the risk related to, for instance, a severe disability arising from something which fell outside a risk assessment, that generated adverse media coverage? *Within the Landbased FE sector, equine accidents are recognised as potentially of significant scale. The Risk Assessments are robust and regularly reviewed. The risk could be extended to include severe injury.*
- Are both the College wide and High Level Risk Registers reviewed termly? *Yes, by SMT. The challenge is to create a "live", "real-time" document.*
- The same challenge is faced in companies. Areas of operation deliver dynamic risk-assessment and risk-management on a daily basis. Governance considers the high-level risks. Getting the two to mesh is challenging.
- Does the SMT undertake dynamic daily risk-assessment? *Yes, every area of activity (e.g. an engineering workshop) or student activity, is subject to risk assessment by staff with students, which enhances compliance. Every Faculty risk*

*register includes at least one risk on loss of recruitment/admissions, and thus of income.*

The High Level Risk Register was recommended to the Board. The College-Wide Risk Register was approved.

Action	By Whom	Deadline
Update the High Level and College Wide Risk Registers to replace "Corona Virus Risk" with "Pandemic Risk"	Finance Director	Before Board in July
Add High Level Risk Register to Board agenda	Clerk	For July meeting

### **11. Annual Reports**

The Gifts and Hospitality, and Whistleblowing Annual Reports were approved. That there had been no Whistleblowing incidents was normal in the Clerk and the Finance Director's experience (of the past 4-8 years).

### **12. Committee Business Plan 2020 and Reflection**

Governors discussed the proposed business plan. It was agreed that the Finance Director and Committee Chair would assess whether the spring 2021 meeting had sufficient business to be called. It was noted that the pandemic had adversely affected completion of internal audit reports for this meeting. This was considered to be a one-off, and not sufficient cause to consider an early Autumn term meeting in addition to the Finance Statements-related November meeting.

The Business Plan was approved as a "living document".

In reflecting on the meeting, governors were satisfied with the papers and the input of staff and auditors. Screen-sharing of papers had been helpful. Business had been conducted appropriately and effectively in a virtual context.

The date of the next meeting would be included in a paper to the Board in July 2020.

Date approved for signature .....

Signature .....

Date .....

Action points arising from the Audit Committee, 9.6.20

Item & Title	Action	By whom	deadline
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6. Internal Audit Reports and Update	Circulate TIAA reports on Risk Management, Financial Controls and Data Assurance to governors, as requested by the Chair	Clerk	When reports are available
<b>7. Internal Audit Strategy &amp; Programme 2020/21</b>	Add Internal Audit Strategy & Programme 2020/21 to the Board Agenda for July	Clerk	For July meeting
<b>10. Risk Management</b>	Update the High Level and College Wide Risk Registers to replace "Corona Virus Risk" with "Pandemic Risk"	Finance Director	Before Board in July
	Add High Level Risk Register to Board agenda	Clerk	For July meeting