

CORPORATION BOARD AUDIT COMMITTEE



Minutes of a virtual meeting held on Wednesday 25 November 2020 at 12.15pm

Present

Ali Kennedy
Adam Mumford, Chair
Nicolas Pagès
John Revis

In attendance

Stuart McKay, MHA MacIntyre Hudson, Partner
Philip Lazenby, TIAA Account Director
Yasmeen Mehmood, TIAA Client Manager
Mark Lay, Finance Director,
Olivier Cognard, Vice Principal, Funding, Planning, and Systems Improvement
Jacqui Canton, Principal
Stuart Hay, Head of Finance
Ruth Reavley, Clerk
Nick Handy, Chair, Finance & General Purposes Committee (to the end of item 4)

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 new committee members and advisors to the meeting. The Finance & General Purposes (F&GP) Chair was welcomed for the Financial Statements discussion. There were no new declarations of interest. The meeting was quorate. Members had received an amended running order for the meeting.

2. Minutes of the meeting held on 9 June, 2020

The minutes were approved for signature.

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

The report was noted. No additional matters were raised.

4. Draft Financial Statements 2019-20

The Chair thanked the College Finance team and staff from MHA MacIntyre Hudson for the additional efforts made during the remote audit. Item 8 was brought forward to be considered within the Financial Statements business.

Contribution from the Chair of the F&GP Committee

The chair of F&GP drew attention to the major discussion points of the F&GP Committee:

- Consistency of the report against reports received at F&GP through the year
- Handling of negative net assets in relation to the Insolvency Act
- Future cash flows and going concern

The F&GP Committee had made a range of suggestions to enhance wording on reserves, the impact of cash-treatment (rather than accounting treatment) of the Local Government Pension Scheme (LGPS) deficit, post-balance sheet events, and covenants. F&GP members would review the forthcoming amendments before the revised document is circulated to the Board. The F&GP Committee had recommended the Financial Statements to the Board, subject to the Audit process.

- Guidance on the treatment of pension fund deficits was quite old; was there anything more recent? *The F&GP Chair commented that FRS17 had provided the original guidance; current guidance was even more focussed on cash treatment. The sector context could be helpful: 70 Colleges had reported negative net assets in 2019/20, and informal indicators are that the number is expected to double for 2020/21. It is a sector issue, which no individual College can solve.*
- When is the next LGPS scheme revaluation? *A Valuation had been made in 2019, communicated by the actuaries to the College in early 2020; the next was due in March 2022, reported to Colleges in early 2023, effective from April 2023.*

Stuart McKay contributed an Auditor's perspective. Pension liabilities had increased across all pension schemes because discounts have dropped. The College is in line with the Sector, according to the MHA MacIntyre Hudson benchmarks. Governors may note also that the Teachers' Pension Fund is unfunded, so does not appear on College Balance Sheet, and that there is no indication that this will change.

The chair of F&GP left the meeting.

4.2 Audit Findings Report

Stuart McKay reported that the pandemic had not restricted the scope of the audit. Additional work had been completed to gain assurance in the absence of an Internal Audit report on Learner Number Systems; findings, which were very largely positive, will be shared with the College. With respect to the Board's judgement on going concern, Colleges had mixed sources of income, some lagged (16-18 funding) some demand-led (AEB adult funding) and some commercial, which all had impact on the judgement to be made. In response to the impact of the pandemic on Colleges, the ESFA lowered the AEB threshold in 2019-20 for the conditions under which it would clawback, and are looking into whether they will do this again in 2020-21. They are also considering a change to the methodology for the financial health grade scoring for 2020/21.

He noted that the College had received a Variation of Terms from Barclays in relation to the loan, not a waiver. Colleges which had breached their covenants and which had not negotiated a variation and so were in technical breach had needed to reclassify their long-term debt as current debt, which was causing problems for many. He accepted that the Lloyds loan covenant had not been breached; the reclassification would not have made a material impact on the accounts. The comment was subject to further revision before the report was issued to the Board.

A new section in the report covered significant deficiencies in internal control. Internal Audit reports give assurance. "Significant" is not a defined term. The significant and advisory findings and recommendations were discussed. Committee members approved the Management responses, proposed actions and timelines on two significant deficiencies.

Committee members agreed with the Finance Director's proposal that the continued benefit of the Lloyds loan facility should be discussed at the F&GP Committee. Members noted a paper covering the procedure for delegated authority of the Principal for Termination/Settlement payments was on the December Board agenda. A leaver procedure for Governors would be taken up by the Clerk and the External Auditors. A Strategy meeting in Spring 2021 would include consideration of the impact of the pandemic on College operations; a recent Senior Management Team appointee explicitly included systems improvement in their brief.

Governors noted that the Individual Learner Numbers section of the report would be populated before the report was submitted to the Board. Discussion of governors' views of management responses would take place at Board.

Governors noted the adjusted and unadjusted misstatements as reported.

The Sector Development section of the report was welcomed as a useful overview for governors.

Commenting in general on the accounts, governors concluded that the College was responding very well to the challenges of the pandemic.

- What early warning indicators should the Audit Committee look out for in 2020/21? *Stuart McKay recommended a careful watch on income streams. Though some could not be controlled by the Board and were fixed-price government arrangements, promoting a diverse income stream, taking advantage of government assistance, and seeking to innovate within the risk appetite of the Board were key. He commended the development of a Reserves Policy, as a joint piece of work between the Audit and F&GP Committees.*

4.4 Letter of Representations

The letter was largely standard. The Committee recommended it for signature by the Board Chair and Principal.

4.5 Regularity & Propriety Questionnaire

The draft Corporation response and evidence/references to this standard ESFA questionnaire were recommended to the Board for signature by the Chair and Accounting Officer.

8. College compliance with the Furlough Scheme and Public Procurement Notices during the Covid-19 pandemic

The ESFA had issued an additional questionnaire on these matters, as an integral part of the preparation of College Accounts for 2019-20. The Finance Director's papers were discussed.

- Did any contractors insist on continuing to supply while the College was closed? *Two contractors did and were paid in full. This would be taken into considerations when contracts came up for review.*
- The security of buildings and estate was maintained while Campuses were largely closed, yet two contracts were suspended. What impact did the suspensions have? *The impact would be checked and reported back to the Committee.*
- Did MHA MacIntyre Hudson judge that the Finance Director's report on compliance was sufficient? *Yes, it was, in terms both of supplier continuity and interpretation of furlough. The Government's wording on the latter had been disconcertingly vague, and the report was in "plain English" and clear.*

4.1 Draft Audit Committee Annual Report 2019-20

The draft report was approved, subject to the Clerk updating missing comments from the reports provided at this meeting.

4.3 Financial Statements 2019-20

In the light of the foregoing discussion and papers received, the Audit Committee were satisfied with the assurance given on governance and internal controls in relation to the

Financial Statements, and unanimously recommended the Financial Statements 2019-20 to the Board, subject to amendments as noted.

Action	By Whom	Deadline
Add Lloyds Loan facility to F&GP Spring Term agenda – consideration of whether the costs outweighed the benefits	Finance Director/Clerk	For Spring Term agenda
Follow through on evaluating the potential benefit of a Reserves Policy; propose to Audit and F&GP Committees	Finance Director	In context of Strategy Day in Spring Term 2021
Revise draft Financial Statements as discussed	Finance Director	For December Board meeting papers
Add Financial Statements 2019-20 to Board Agenda	Clerk	For December meeting
Add Audit Committee Annual report to Board Agenda	Clerk	For December meeting
Circulate information about security contracts during lockdown to Audit Committee members	Finance Director	As soon as possible

5. Internal Audit Reports

The Chair thanked the College finance team and internal auditors for the additional efforts made during the pandemic to complete internal audit work remotely. The order of papers was varied.

5.3 and 5.2 Summary Internal Controls Assurance Report, and detailed individual reports

Philip Lazenby introduced himself as the new Account Director and introduced the new Summary of Internal Controls Assurance Report (SICA Report). The quality of field work had not been adversely affected by remote working. It was his view that the College was performing very well against the sector, with two “reasonable assurance” and two “substantial assurance” reports issued; TIAA were issuing many “limited assurance” and “no assurance” reports.

A schematic diagram contextualising current lockdown conditions and a framework for governance, risk management, and control measures going forward, was offered.

Summary detail of the four internal audit reports was covered, alongside an update on progress made on management actions on previously-issued reports. The progress against the annual plan was noted.

The SICA report was noted.

Papers 5.2.1 – 5.2.4 were approved by the Committee.

5.1 TIAA Annual Report

Governors had previously approved Performance Measures (KPIs) for 2019/20; 20/21, and noted that they had been attained.

- There was a marked reduction in the number of recommendations made by TIAA from 2018/19. Though welcome, was there any concern that that reflected the remote auditing process? *It is possible. However, across all sectors audited by TIAA, the trend is the opposite, and an increase in recommendations is typical.*

- *The Finance Director suggested that the 3-year Plan had scheduled internal audit of areas of greatest concern in 2018/19, and that this may contribute to the College trend.*

Philip Lazenby commended the College and Board for maintaining resource allocation to keeping policies up to date and monitoring, despite additional calls on resources arising from pandemic-related matters.

The report was unanimously recommended to the Board.

5.5 Progress on outstanding internal audit report actions

Developing Mr Lazenby's last point, the Finance Director reviewed his paper. The HR project was large and had many ramifications for internal procedures and practices. The I-Trent upgrade had been slower than planned, but was having positive impact, and is due to be complete by Christmas, with paper-based processes being replaced by online ones, with efficiency gains.

Governors noted the report.

5.6 ICT review of Cybersecurity Audit – updated responses

Progress on cyber security matters was discussed. Since the report was published, the nature of cyber attacks had changed, and the College had adapted its practices to maintain high levels of protection.

- The progress which has been made on cyber security matters is creditable. Governors would be interested in the findings of the phishing data work. The level of expenditure made by the College on software and additional staff will related to risk appetite. *The work done in-year on phishing has been better than we had hoped, but there is no complacency.*

The Finance Director proposed that the College complete the planned work, then invite TIAA to re-audit to verify completion. This was unanimously agreed. TIAA would re-audit in Spring 2021. Governors thanked the College for maintaining vigilance in a developing area, and for the thoughtful responses to their evaluation, and the investment necessary on mitigation. The report was noted.

5.7 Internal Audit of Learner Numbers System

The Finance Director introduced an additional business item. He made the case for using the Commissioned Audit budget allocation, which lay outside the budget for the TIAA work, in part on a commissioned Learner Number System report, under the oversight of the Vice Principal, Funding, Planning, and Systems Improvement. An appropriate Auditor would be identified, for work to be undertaken in March/April.

Governors unanimously approved the proposal.

Action	By Whom	Deadline
Add Internal Auditors' Annual Report 2019-20 to the Board agenda	Clerk	for December meeting
Update Committee business plan to include Cyber security re-audit report	Clerk	immediate
Update Committee business plan to include Commissioned Internal Audit of Learner Number Systems	Clerk	Immediate

Scope and commission Learner Number Internal Audit work	VP Funding, Planning, and Systems Improvement	For reporting in Summer Term 2021.
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6. Risk Management

6.1 Risk Appetite Statement

Governors welcomed the paper, and noted that the High Level Risk Register, lines, 2.4, 4.8 and 4.9 would need additional work should the paper be recommended, as risks categorised “adverse” or “minimalist” needed to be mitigated to RAG rate green under the proposals.

- In Senior Management Team discussion, were any of the six areas of activity considered borderline? Was the classification “Hungry” not one the College wanted to use at present? *Another College had categorised Economic Development as “hungry”, but the SMT had discussed it, and concluded that “hungry” was not appropriate given the Strategic Plan. For instance, the College was open to merger, but not actively seeking one.*
- Might the “Reach and Relevance” Area of Activity be re-categorised as “hungry”, as a stretch ambition? *“Hungry” would involve the College going outside its core business. Maybe in a couple of years that would be appropriate. That Area should not be less than “Open”.*
Is a step into the unknown a risk, or creative? The SMT needs to have the conversation to know where the College sat. *It was true that risky ideas could still be worth doing.*
- How close was the classification of the Area of Activity of Reputation to “Minimalist”; it is “Cautious” in this scheme. *The SMT had considered the extent to which the College’s reputation, were it to encounter adverse publicity, would impact on student choice. There was strong evidence that at L1 and L2, students attended their nearest College.*

Nicolas Pagès left the meeting. The Committee remained quorate.

The Risk Appetite Statement was recommended to the Board.

6.2 High Level Risk Register

The paper was discussed.

- How are preventive controls and mitigating actions verified? *As College Risk Champion, the Finance Director randomly audits six risks each term, and collects the evidence that controls are in place. TIAA audit against the Risk Policy, so inspect the evidence.*

Stuart McKay commented that this process was impressive, and demonstrates that, despite the resource demands of the pandemic, the College remained vigilant about internal controls and “business as usual” matters. Many Colleges have reduced their vigilance during the pandemic. In terms of transparency of reporting, he suggested adding an indicator of the three “lines of defence” (the “Risk Champion”, Internal Audit and External Audit” to the High Level Risk Register. The Finance Director would devise a colour-coded approach.

The High Level Risk Register was recommended to the Board.

Action	By Whom	Deadline
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Add Risk Appetite Statement to the Board agenda	Clerk	For December meeting
Revise High Level Risk Register lines 2.4, 4.8 and 4.9 to mitigate amber risk to green	Finance Director	For December Board meeting
Enhance the High Level Risk Register to capture the “three lines of defence”	Finance Director	As time allows
Add High Level Risk Register to the Board agenda	Clerk	December meeting

7. Board Assessment of Fraud Risk

The Finance Director presented the College’s responses to a new questionnaire required by MHA MacIntyre Hudson, necessary to comply with International Standards on Auditing. Fraud, financial malpractice and financial mispractice were of increasing concern in the sector. Answers had been prepared by the Clerk and Finance Director. Board approval was desirable.

- Answers 2 and 5 include a statement that staff “must” – could that be changed to indicate that staff “should”, and “have been trained in”? *That would be done.*

The paper was recommended to the Board.

Action	By Whom	Deadline
Amend the Questionnaire responses as requested	Finance Director	immediate
Add Questionnaire to Board paper on Fraud Prevention	Finance Director	For December meeting
Add to Board agenda	Clerk	For December meeting

9. Annual Report on Value for Money

Members noted the Financial Director’s explanation of the ESFA calculations of benchmark data, and accepted that the benchmarks available were not helpful in interpreting value for money matters. The report was approved

10. Annual report on the effectiveness of governance

This new report responded to the responsibility of the Committee to advise the Board on the effectiveness of governance in the round. Internal Audit report highlighted particular matters. The report was welcomed as a useful triangulation tool, and was noted.

11. Implementation of the new Sage accounting software

Initial implementation issues around the Purchase Order system had now been resolved. Colleagues working remotely now had access to the necessary software. In discussion:

- Was there any non-compliance with payment policies while the Purchase Order problems were being resolved? *Authorisation by email was implemented, and no non-compliance was reported.*

The report was noted.

12. Use of College Seal and approval of high level contracts report

The report rectified a lapse in reporting and was noted.

Action	By Whom	Deadline
Add standing item on use of College Seal and high value contracts to Committee	Clerk	immediate

agenda; update Business Cycle		
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13. Draft Regularity & Propriety Questionnaire 2020/21

The report and proposal for 2020/21 were noted.

14. Policies: Fraud Prevention

All new policies were reviewed after the first year in operation, and thereafter three-yearly. Drafting it had involved careful consideration of the implications of existing policies on, for instance, Staff Disciplinary matters. The Fraud Response procedure had been included to ensure such implication had been worked through.

Stuart McKay commented that an increasing number of Colleges were adopting a Fraud Prevention Policy. There is an MHA MacIntyre template, should that be useful as part of the end-of-first-year review.

- The reasoning for including the Fraud Response procedure was sound for the Committee's consideration, however, removal was recommended before approval was sought by the Board. *Separation would be done.*

Action	By Whom	Deadline
Separate Policy & Procedure	Finance Director	immediate
Amend page 1 to indicate 1 year, then 3-year review	Finance Director	immediate
Add Fraud Prevention Policy to Board agenda	Clerk	December meeting

15. Any Other Business

None had been raised.

16. Future Business Items and reflection

A significant alteration of the Committee Business Cycle was proposed by the Finance Director for 2021/22 onwards: all Internal Audit work would be removed from Autumn Term, when resource was in demand for the Financial Statements Audit, and moved into Spring Term. Internal Audit Follow-up would be scheduled for Summer Term. Reporting would be scheduled for the Summer Term Audit Committee meeting.

Further, an amendment to the Plan proposed in paper 5.4, the 2020-21 Annual Plan, was proposed:

Audit Area	Original planned work	Original Committee	Revised Planned Work	Revised Committee
Business Continuity Planning	T1	T1	T1	T2
Governance - Strategic Planning	T1	T1	T2	T3
Admissions	T2	T2	T1	T2
Key Financial Controls	T2	T2	T2	T2
Health, Safety & Wellbeing	T2	T3	T2	T3

Ali Kennedy left the meeting, which remained quorate.

The significant alternation to the Business Cycle for 2021/22 and the proposals for in-year changes were both approved. The Clerk would circulate revised documents.

Action	By Whom	Deadline
Issue revised Committee Business Plan 2020-21	Clerk	immediate
Issue revised Business Cycle and revised meeting plan for 2021-22	Clerk	immediate

The meeting closed at 2.25pm.

All staff except the Clerk left; a scheduled private meeting was held between the Chair of the Audit Committee and Stuart MacIntyre of MHA Macintyre Hudson.

Approved for signature:

Signature

Date

Action points arising from theCommittee, date, month, year

Item & Title	Action	By whom	deadline