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Directorate: Governance

Minutes of: Audit Committee

Date: 19 September 2019 **Time:** 9.30

Venue: Executive Meeting Room, Uxbridge Campus

Present: Ketan Sheth (KS) Governor (*Acting Chair*)
Tracey Critchley (TC) Governor

Apologies: Nasim Khan (NK) Governor

In attendance: Lucky Dube (LD) Interim Head of Finance
Tracy Reeve (TR) Clerk to the Corporation
Matthew Vosper (MV) BDO LLP (external audit)
Darrell DeSouza (DDS) CEO/ Principal
Shane Woodhatch (SW) Group Director Finance & Resource Planning
Item 11 & 12 only Andrew Miller (AM) Executive Director of Corporate Services
Agenda item 12 only Kath Rangeley (KR) Director of Funding & Information Services

1. Chair's Agenda Item

There was no specific Chair's Agenda item.

2. Apologies for absence

Apologies had been received from Nasim Khan. The Clerk informed the meeting that she was working with Protocol to fill the vacancy on the Audit Committee. The Acting Chair (KS) welcomed Lucky Dube (LD) to his first meeting since his appointment as interim Head of Finance for HCUC.

3. Notification of any urgent items members may wish to raise under Any Other Business

There were no items notified.

4. Notification of Interests Members may wish to declare relating to any item

There were no interests declared.

5. Minutes of the meeting held on 4 July 2019

The minutes were approved by the meeting and signed by the Acting Chair.

6. Matters arising from the minutes of the meeting, 4 July 2019, not on the agenda

There were no matters arising that were not already covered by the agenda.

7. Preparation of Audit Committee Annual Report 2018/19

The Clerk (TR) presented the first draft of the Annual Report 2018/19 of the HCUC Audit Committee. TR confirmed that the report as presented met all the requirements of the Post-16 Audit Code of Practice (March 2019) and reminded the meeting of the importance of the Annual Audit Committee Report within the Board Assurance framework; it provided assurance to the whole Corporation alongside the College Financial Statements. The meeting noted that the statements around the external auditors' opinions would be confirmed after the audit of the HCUC Financial Statements 2018/19 was completed. The meeting discussed the possible delays to the annual mock funding assurance audit, which the College commissioned for additional annual assurance.

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SW informed the meeting that these were likely to be delayed in autumn 2019, as the frameworks for the ESFA Funding reviews had not yet been agreed. This would mean that the audit firms were yet to finalise the format of their reports; KPMG would only be able to undertake funding assurance audits from December 2019. The GDFRP highlighted that this would mean that the results would only be available once the Financial Statements were finalised. He assured the meeting that a provision could be made at year-end to mitigate any potential clawback of funding post year-end. External audit manager MV highlighted that the College would need to have a reliable estimate of any potential clawback in order to make a provision at year-end. It was agreed that GDFRP would speak to Nick Simkins, Audit Partner at BDO to discuss the best course of action to mitigate any risk around this issue. The Acting Chair asked that Audit Committee be informed about the advice and the agreed course of action in advance of the next Audit Committee meeting. The Clerk suggested that she should add the details in relation to the Ofsted Monitoring Visit (June 2019) as this was an additional source of external assurance for governors.

The draft HCUC Audit Committee Annual Report 2018/19 was APPROVED subject to:

- **confirmation on the 2018/19 financial statements audit;**
- **an amendment with regard to the timing of the funding audit on the 2018/19 ILR; and**
- **an addition regarding the Ofsted Monitoring Visit in June 2019.**

The final Audit Committee Annual Report would be presented for approval at the next Audit Committee, (27/11/19) before submission to the Governing Body in December 2019.

It was also AGREED that GDFRP (SW) to speak to the Audit Partner at BDO to discuss the best course of action to mitigate any risk around the issue of potential funding clawback and circulate details of the agreed action to Audit committee members.

8. **Key Performance Indicators for auditors 2018/19**

SW presented the draft performance indicators (KPIs) for 2018/19 for External and Internal Auditors. The external auditors would be judged against the same criteria as used in the prior year based on four elements: Audit arrangements; Conduct of the audit; Professionalism of the audit; and five general indicators covering the working relationship between auditors and College, whether auditors regularly updated College management on sector changes and the availability of auditors throughout the year in response to ad-hoc changes. As a number of specialists commissioned as required by the College had provided the internal audit provision at HCUC during 2018/19, the College managers who had interacted with the auditors would provide feedback on performance of each of the specialists. College management using subjective factors such as timeliness and the usefulness of the recommendations would also assess 'Value for money' of the individual specialist provision. The meeting noted and agreed that the external auditors, BDO (formerly Moore Stephens), would be asked to self-assess against the KPIs in advance of the next Audit Committee meeting. The Clerk confirmed that the final completed KPIs would also be sent to the ESFA as an Annex to the Colleges' Audit Committee Annual Report 2018/19.

The meeting APPROVED the KPIs for Internal and External Auditors as presented.

It was AGREED that the External Auditors (BDO) would complete a self-assessment based on the KPIs for 2018/19.

9. **HCUC Annual Risk Management Report 2018/19 for recommendation to Corporation**

The GDFRP (SW) presented the draft annual report of the HCUC Risk Management Group for the period 1 August 2018 to 31 July 2019. The meeting was reminded that the Risk Management Group comprised the Senior Leadership Team, however, the Strategy and its implementation were set and reviewed by the Governing Body. During the 2018/19 year, the College had operated one composite risk register covering Harrow and Uxbridge Colleges.

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The Audit Committee noted Appendix 1 to the report, which detailed the risks with scores of 12 and above ('significant') at the start of the year, against the end of year score and an explanation. There were five significant risks at the start of the year, which remained unchanged throughout the year. There was one new risk introduced but no risks where the score increased to significant by the end of the year. The five significant risks at the year-end for 2018/19 were:

- Insufficiently qualified and equipped staff to support the delivery of study programmes and quality outcomes for learners
- Failure to recruit sufficient staff, qualified at the appropriate level.
- College Self-Assessment Report and/or Ofsted rating falls below Outstanding within the new Ofsted Education Inspection Framework (EIF).
- Underachievement of funding targets
- Management information - timely/ accurate (funding, finance, HR)

Up until 2015/16, the Internal Auditors at Uxbridge College carried out reviews of risk management and governance, along with a number of other areas, and gave the College substantial assurance that the controls, upon which the organisation relied to manage this area, were suitably designed, and consistently applied and effective. The meeting was reminded that since 2016/17 and during 2018/19 there had been no specific audit of risk management; the work of specialist auditors in the year had concentrated on areas of high priority detailed in the risk register. In addition, each risk on the Risk Register was assigned to a Corporation sub-committee. The relevant contingency and significant risks were reviewed at each sub-committee meeting as standard agenda items, with an overview remaining with the Audit Committee. At each Governing Body meeting, officers presented Directorate reports, referencing the major risks. The Principal confirmed that the Risk Register was working well as a live document. It showed 'Red Amber Green (RAG)' rated risks aligned to the Corporate Goals and was embedded throughout HCUC at all levels of management. The report confirmed that each school and service area had reviewed their risk register as part of their development plan. The review of the College Risk Register continued to be a standing item on the agenda for each of the schools and service areas reviewed at the Senior Leadership Team meetings, and individual risks were monitored on an ongoing basis in the context of updates to the operational plan and corporate goals. The Audit Committee were given assurance that the Risk Management Group was satisfied that there was a formal ongoing process for identifying, evaluating and managing the College's significant and contingency risks.

The Risk Management Report 2018/19 was APPROVED for submission to the Corporation (in December 2019) subject to confirmation of the compliance with Corporate Governance requirements (to come from the external audit of the financial statements for 2018/19).

10. To receive the audit plan for 2018/19 from the external auditors, BDO LLP

Matthew Vosper (MV), Audit Manager with BDO LLP, presented the report outlining the audit plan for the external audit of HCUC for the year ending 31 July 2019. He reminded Audit Committee members that Moore Stephens had merged with BDO in February 2019 and were now working under the new branding. MV assured the meeting that the audit team assigned to HCUC was the same as before the merger with BDO. The meeting noted that the scope of the work would include an audit opinion on the financial statements as well as a regularity audit for year-end 31 July 2019. The meeting noted a detailed summary of the audit approach, which would be used during the external audit and Governors were given assurance that it was in line with the prior years' audit activity. MV confirmed that the BDO audit team had already been into the College and met with the GDFRP to talk through the process and any likely risks that might affect the year-end position. The significant audit risks identified were: management override of controls; fraud in revenue (and expenditure) recognition; defined benefit pension scheme liability valuation; and capital expenditure projects. The meeting discussed the movement in the LGPS liability that

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was now set at £21.7m compared with the provision of £13.5m. There was also an adverse movement in the 'Income & Expenditure' pension charge; this was assumed at £1m for 2018/19 but was now confirmed at £1.4m. MV confirmed that BDO would look at the actuarial assumptions used to ensure that they were consistent with sector benchmarks. SW also highlighted the need for scrutiny around capital projects and tight ongoing control when the College would be spending circa £20m on building projects over the next 3 years.

The meeting noted the other matters which BDO had flagged for management consideration including the possible impact of Brexit and the UK leaving without a deal; this would have to be considered in the narrative to the financial statements. The Acting Chair asked whether the College had staff members who could be impacted by Brexit but management were unsure whether this was the case. ***It was suggested that this matter should be included in the audit of HR across the College to ensure that due consideration had been given to any impact on the college or the individuals. It should also be included in future HR Reports to the Resources Committee.*** The meeting also noted the statement from BDO confirming their independence as auditors.

The timetable for the external audit was noted with the fieldwork commencing on 21st October for 10 days. Presentation of the final accounts to the Audit Committee and the Resources Committee would be on 27th November 2019 before they were taken to Corporation for approval on 10th December 2019. The meeting noted the planned levels of materiality set by BDO based on the forecast figures for the 2018/19 year; this figure would be £700,000 (compared with £750,000 in the prior year). The 'clearly trivial' threshold was set at £15,000 this was the same level as during the prior year audit. However, MV highlighted that any errors whatever the value would be discussed with management but only reported to Audit Committee if material.

The audit fees of £33,735 plus VAT were noted as being in-line with the tender submission from Moore Stephens in June 2018 with the addition of the work for the mandatory audit of the Teachers Pension Scheme Certificate (overall a 3% increase on the prior year figure of £32,750).

The external audit plans for the 2018/19 financial statements were NOTED and APPROVED.

Future HR Reports to the Resources Committee to highlight any issues around Brexit for individual staff e.g. non-British citizens. [Clerk to flag this new requirement with HR Director.]

11. To receive and approve the Internal Audit Strategy 2019/20-2020/21 for recommendation to the Governing Body

The GDFRP introduced a paper detailing the updated internal audit strategy and the annual plan for 2019/20. Governors were reminded of the requirements and obligations placed upon the Audit Committee and the Corporation under the overarching statutory documents of FE colleges. The importance of the challenge and scrutiny role of the Audit Committee and Governors was accepted. The acting Chair asked the meeting to consider whether the internal audit strategy of appointing specialist firms had worked well over the last few years. College management assured Audit Committee members that these 'specialist' internal audits had provided a better level of assurance for Governors and College management as the audits had been more rigorous. The specialist audits had been undertaken by firms who had a very thorough understanding of their audit areas. These audits provided useful recommendations for continuous improvement and better 'value for money' in terms of impact, than the anecdotal experience of employing one firm of internal auditors only. TC as Staff Governor confirmed that in her experience the specialist audit of safeguarding that had taken place at Harrow in 2017/18

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had been more rigorous and generated more useful feedback than any previous safeguarding audit from a generalist internal auditor. After discussion, the meeting agreed that the 'specialist call-off' approach should continue into 2019/20 for HCUC. The Acting Chair sought confirmation on how the College sourced the 'specialist' audit firms. SW informed the meeting that the audit requirements were put out to tender through the College's Procurement Officer. Specialist firms to approach were often found through 'word-of mouth' within the sector, including via the Finance Directors JISC-mail network or after taking advice from BDO as external auditors.

The meeting noted the key areas of concern raised by a review of the HCUC risk register for 2019/20 and in discussion with College senior managers. Areas planned for inclusion in the internal audit plan 2019/20 were noted as: Safeguarding and Prevent; Health and Safety; Key Financial Controls (including the new payroll system); HR operations and systems post-merger now the new HR team and systems were in place; compliance with the new GDPR legislation; Apprenticeships (including all elements of funding, levy and non-levy); and Funding compliance. Governors noted that £63,000 had been included in the HCUC College budget for 2019/20 to allow for the internal audit work and any additional ad hoc audits. The GDFRP reminded the meeting of the discussion earlier in the meeting highlighting the delay to the Funding audit of the 2018/19 ILR. Exec Director for Corporate Services (AM) joined the meeting to discuss the planned audit of Human Resources deferred from the 2018/19 year in order to give the HR Team time to fully embed the HR systems and policies across HCUC. Audit Committee members asked that the HR audit be undertaken as soon as possible in the year – preferably January 2020 rather than March 2020 as suggested - as it had already been deferred. AM assured Governors that the HR Team was still working to the action plan as agreed in November 2018 to prepare them for the audit.

The meeting APPROVED the Internal Audit Plan 2019/20 as presented with the caveat that the HR audit was undertaken as early as possible in 2020. It would be RECOMMENDED to the Corporation for approval in September 2019.

It was suggested that the issues around Brexit – especially in relation to the possibility of the UK leaving Europe without a deal - should be included in the audit of HR to ensure that due consideration had been given to any impact on the college or individual staff or students.

12. Review of previous audit recommendations

The Head of Finance (LD) presented a report on progress against the previous audit recommendations in relation to the audits of key financial controls and funding during 2018/19. The meeting commended the addition of the RAG rated column that clearly demonstrated progress against the recommendations.

Funding Audit: The Director of Funding and Information Services (KR) joined the meeting to provide an update on progress with the remaining recommendations from the Funding Audit of Harrow (HC) and Uxbridge Colleges (UC) in autumn 2018. The meeting noted the ongoing cumbersome paperwork requirement that needed to be completed in advance of starting a learner on an apprenticeship contract. Governors highlighted the number of funding recommendations flagged as due for completion by August 2019; KR confirmed that many of these were already in place but they would only be deemed as completed during the 2019/20 academic year. The only ongoing issue was in relation to Skill-Scan but the meeting was assured that this would be in place for all apprenticeship frameworks by the end of 2019/20. DDS confirmed that this matter was regularly discussed in detail at the Project Monitoring Group and the Exec Lead had given senior management assurance that Skill-Scan would be in place for all new apprenticeship starts during 2019/20.

Key Financial Control Audit: GDFRP informed the meeting that the recommendation around debt collection had now been resolved after discussion with a consultant. The report-writing

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recommendation was also now complete. The recommendation in relation to migration of assets at year-end was on track for completion by the third week in October in readiness for the year-end audit by BDO.

Health & Safety Audit: The Exec Director of Corporate Services (AM) joined the meeting and provided assurances around the ongoing recommendations from the Audit of Health & Safety as discussed in detail at the last Audit Committee meeting. AM reminded the meeting that the annual Health and Safety Report 2018/19 would be presented to the Corporation meeting on 25th September 2019. It was noted that new signage for COSHH (control of substances hazardous to health) had now been approved and would be installed in every classroom by the end of September 2019.

Human Resources pre-audit: AM updated the meeting on progress against the action plan drawn up after he had undertaken an early 'internal' audit of HR systems before the formal internal audit of HR was to be commissioned in 2019/20. The meeting was pleased to note that an experienced system administrator for i-Trent was starting work at HCUC in October and they would be able to use their system expertise to train other HR staff. This would enable Harrow College and Uxbridge College records to be combined on the new system. The Acting Chair asked for a completion date for this work to be identified as soon as possible; AM confirmed that he would have an action plan in place in advance of the next Audit Committee meeting and a completion date would be identified at this stage.

The report was NOTED.

13. To receive an update on the Risk Register

The meeting received the HCUC Risk Register that had been updated by the Executive Team, through a review of the 2018/19 and 2019/20 corporate goals, and projects coming on stream throughout the year. The meeting discussed the following key risks in more detail and the mitigating actions put into place:

- 1.08 Insufficiently qualified and equipped staff to support the delivery of study programmes and quality outcomes for learners. (Risk score remains at 12 'red').
- 1.09 Failure to recruit sufficient staff, qualified at the appropriate level. (Risk score remains at 12 'red').
- 1.13 College SAR and/ or Ofsted rating falls below Outstanding within the new EIF. (Risk score remains at 12 'red').
- 2.05 Project Work fails to prepare the college for T Levels, Capacity Development Fund and the related Transition programme. (New risk added since June 2019 with a risk score of 10 'amber').
- 3.11 Underachievement of funding targets (Risk score still at 15 'red'). Until the 6-week census point was reached there could be no certainty around this. However, the CEO informed the meeting that current enrolment figures were encouraging across the whole of HCUC. For the September 2019 enrolment the individual colleges had communicated well and in several instances transferred any 'excess' students on a programme to the other College.
- 3.14 Management Information – timely/ accurate (funding, finance, HR) (Risk score remains at 12 'red'). There were consistent procedures across HCUC now in place and a restructure of all areas had taken place. However as the new composite HCUC systems were still relatively new (e.g. HR system) the risk was still deemed as high.

West London Institute of Technology

The meeting also noted a separate Risk Register for the West London Institute of Technology, to be opened at the Uxbridge Campus from September 2020. This Risk Register format was in a format specified by the Department for Education and was used by them as a monitoring tool as well as internally by HCUC. There were no 'red' risks shown but there were two 'red/ amber' risks. These

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were in relation to: the implications of Brexit and possible increased cost of building materials for the capital project; and, risks associated with not recruiting staff to identified skills gaps. The Acting Chair (KS) sought assurances from members of the Executive Team around the ongoing risks of the Institute of Technology (IoT) especially with regard to recruitment of the necessary specialist staff in engineering. The CEO assured the meeting that there were tight controls in place e.g. the IoT Project Board which would mitigate the risks around this new initiative as much as possible. The GDFRP assured the meeting that there was a specific 'work stream' for the IoT project in relation to staffing; this was the responsibility of the HR Director at HCUC and the GDFRP. KS asked the Exec Team to clarify the likely timeline for the Governors to be able to gain assurance around the risks to the IoT in terms of staff, resources and building capacity. SW reminded the meeting that the development of the IoT was over a 5-year plan but the curriculum plan was already in place, which clearly demonstrated the required numbers. The CEO (DDS) confirmed that the development of the curriculum was well underway and good relationships had been established with employers and awarding bodies. The risks around the estate and the new building were lower as the new capital build was meeting the planned timeline; the initial car park works were on track for completion by 22nd September 2019. There was a marketing strategy in development and the College and its IoT partners were actively engaging with local employers. The meeting agreed that the marketing would be crucial to the success of the IoT across the country; this would need to facilitate a mind shift so that the nation accepted that career prospects of technical level qualifications could be as valuable as a degree. The IoT Board would monitor progress against this 5-year plan very carefully at the monthly meetings and bring it to the HCUC Corporation for assurance. KS sought, and was given, confirmation that the Resources Committee of the Corporation had the 'watching brief' for the IoT development phase.

The HCUC Risk Register and the IoT Risk Register was NOTED and RECEIVED.

14. To receive report on any fraud/corruption issues and additional work required by auditors year-to-date 2019/20

- ***Fraud***

There had been no attempted fraud or corruption issues to report.

- ***Additional work undertaken by auditors***

There had been no additional work undertaken by auditors.

Noted

15. To confirm and agree the dates and times of meetings for 2019/20

The dates and times of the meetings noted as follows:

- Wednesday 27 November 2019 at 9.30am
- Wednesday 4 March 2020 at 9.30am
- Wednesday 17 June 2020 at 9.30am

16. Feedback to Governing Body Meeting 24th September 2019

It was agreed that the following items would be given as feedback to the next Corporation meeting:

- Annual Risk Management Report 2018/19: Audit Committee would be recommending it to the Corporation for approval. The Committee had sought assurances around the ongoing risks of the Institute of Technology (IoT) especially with regard to recruitment of the necessary specialist staff. Governors were given assurance around the tight controls in place - IoT action group etc. - to de-risk this new project wherever possible. The meeting noted that there was a specific 'work stream' for the IoT project in relation to staffing.
- Internal Audit Strategy 2019/20: the meeting received confirmation of the ongoing benefit of sourcing specialist auditors for different internal audits e.g. safeguarding, health and safety. This strategy provided value for money and produced a more rigorous audit with more

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valuable recommendations for ongoing improvement. This methodology was included in the internal audit strategy brought to Governing Body for approval.

- Internal audit of Human Resources department: Audit Committee members asserted the need for this audit to be undertaken early in 2019/20 (January 2020 rather than February/ March 2020) as it had already been deferred - with Audit Committee approval - from the prior year's internal audit plan.
- External Audit: The meeting received an outline of the planned timetable from BDO (formerly Moore Stephens), the college's external auditors. The audit of the financial statements 2018/19 would commence on 21 October 2019.

17. **Any other business**

There was no other business. The meeting closed at 11.05am.

Signed.....

Date.....