CORPORATION BOARD of UNITED COLLEGES GROUP
Minutes of the Audit Committee
Monday 25 March 2019, 6 pm
Boardroom, Paddington Green Campus

Members Present: John Petrie, Jan Knight, Amish Nathwani.

In attendance: Zoë Lawrence, Amanda Thorneycroft, Chris Mundy (BDO) (relevant agenda items only)

1	**Welcome and apologies for absence** Apologies were received from Norman Whyte.	
2	**Declarations of Interest in the agenda items** None were declared.	
3	**Minutes of meeting held on 5 December 2018** The minutes of the meeting were approved as an accurate record. **Matters Arising** These were completed or covered elsewhere on the agenda.	
4	**STRATEGIC** **i. Risk Register** *(Highest level risks were circulated in advance)* The Committee at its previous meeting had agreed to focus on the risks with the highest residual risk, rather than the entire risk register which was lengthy. AT explained that the Senior Management Team (SMT) reviewed risks at its weekly meetings, as did the Senior Leadership Team (SLT). The risk register had been reviewed again in light of the resignation of the CEO. The risks with the highest residual risk were included in this paper with action plans to address each. One of the risks concerned the failure to work within the banking covenants. JP referred to the recent written resolution to approve a letter of variation with the bank to ease the cash flow position temporarily for March/April. He sought reassurance that this situation would not reoccur. AT explained that the position was brought about due to a large invoice from Lakehouse, which had not been in the original budget, plus the impact of the pattern of grant funding from the ESFA at this point in the year. Mitigating actions had been put in place including budget reforecasting to preserve the cash position, and the delaying of capital expenditure. The sale of Queen's Park was also progressing and proceeds from that would prevent reoccurrence. The funds from the sale of Queen's Park would repay the RCF, and a £5m loan from Brent would be used to fund the redevelopment at Willesden/ Wembley going forward. The arrangements for the Brent loan of £5m were progressing well, and it was expected to be signed off in July. The nature of the business generally meant that the colleges did not make significant profits, plus there had been a high level of investment in IT at the Willesden Campus. The banking covenant that was breached last Summer was due to the loss made in	

		these circumstances, however, due to the positive working relationships the college has with the bank it was able to agree a way forward. Both this and the cash flow issue in March had been learning experiences for the governors, and they now felt that they had greater understanding of the issues, though it was not something they would want to see happen often. AN questioned why the residual risk had not been reduced as a result of the action plan, and challenged the value of the actions if reduction in risk was not achieved. He said he would welcome understanding of the factors that have driven the risk rating. AT said that in this instance the worse-case scenario had been taken, though acknowledged AN's comments. She had also challenged SMT/SLT why there was not an academic risk included. The feedback she received was that failure to achieve an Ofsted Good rating was not as detrimental to the college as a breach of a banking covenant, or other similar issues which could result in the college becoming insolvent for example. JK commented on how the definition of a risk can influence the rating creating risks with high (catastrophic) impact though the probability of it happening was very low. It was important to remember that risk registers were live documents and it was an iterative process with frequent review. AT referred to the recent budget reforecast and explained that it was still currently anticipated that the college would come in on budget at year end. Adjustments had been made to account for the reduction in tuition fees. These included not filling vacant posts to manage payroll spend, and delaying capital expenditure. It was of importance to meet financial obligations to ensure the college's financial health. JP noted the risk for the failure to progress the redevelopment scheme for CNWL. He questioned whether this was the right solution at this time. AT explained that the decision had been taken by the Corporation to go ahead with the exploratory work. The risk of not progressing this was likely to result in loss of students at CNWL as the campuses were deteriorating and do not attract new students. Additionally, there was an opportunity of the land swap with Quintain currently available which may not reoccur. It was acknowledge that the college was incurring up to £5m in costs at risk, but this had been transparent throughout, and the Corporation had approved all decisions to date. The Strategy & Estates Committee did consider the issues initially but all decisions had been and would be taken to the Corporation in advance of the HoT being signed. Governance arrangements for the project beyond this point were being considered, but it was acknowledged that this was for the next phase of the programme. AN noted the staffing risk and asked how many key posts remained vacant. AT explained that this had been taken from the HR risk register, and was largely a result of £1.6m restructuring last year were a number of key posts and individuals with corporate history left the organisation. Within the new structures, the college was struggling to appoint to MIS and exam positions which were key to underpinning the college's key business. Whilst a certain level of staff turnover was healthy for an	

	organisation, the levels that the college was currently experiencing were of concern. There was over reliance on agency staffing which was also impacting on costs. Where possible the CPC Framework was being used to manage agency costs. AT considered this to be a sector wide issue. There was an aging workforce in FE, year on year restructuring with mergers and the area reviews were further reducing the available workforce, plus FE teachers were paid less than school/sixth form equivalents. Members considered how to attract employees from outside the FE sector, and in particular monetising the pension and leave benefits to provide comparative value in other sectors. Members queried if the IT risk identified was as significant as shown. The impact did not appear to be as significant on the organisation as the others presented. Members suggested an alternative approach to the presentations of the risks for the next meeting, that this might include: • Detail of the projected effect of the action plan, the expected reduction in risk level. • the highest risks overall and the highest risks in each departmental risk area **ii. Board Assurance framework** *(Paper and guidance circulated in advance)* ZL spoke to her paper setting out a proposal to introduce a Board Assurance Framework to the risk management processes. The tool would primarily be for the Audit Committee/ Corporation. CM said that it was a useful tool to have, but depended on the stage the organisation was at in order to make the most benefit from it. AN said it would be helpful, but concern was expressed as to the resources needed to complete it. It was suggested that this might be something that the Audit Committee could return to in the Autumn term. CM offered support from BDO in developing it if needed.		
5	**INTERNAL AUDIT** **i. Internal Audit Plan 2018/19** *(Paper provided in advance)* CM presented a revised internal audit plan. The Workforce Development Audit had been moved back to include the updates on iTrent, and the Key Financial Controls Audit was now scheduled for April instead of May. There would be a number of IAs which would not report until the Autumn term. This was still a knock on effect of delaying some audits from the time of the merger. AT said that areas for IA were selected on the basis that these were genuine areas of concern where the IA was hoped to be a way to help address weaknesses and issues. JP asked if an IA could be conducted on the decision process/ governance of the Willesden/Wembley project. He expressed concern about the possible lack of transparency on the decision process and whether the Corporation had taken sufficient advice. He asked for a mapping of the decision process which had got us to this point and that which would be needed to consider the HoTs by the time of the July Corporation meeting. AT and ZL were of the view that all decisions on the project had		

	been taken by the Corporation, and further detailed information and discussion was shared with members at the Strategy Day in January. A further item on the outcomes of discussions at the preceding week's Strategy & Estates Committee meeting would be included on the next Corporation agenda. The decisions being taken were acknowledged as being complex with interdependencies which meant that the decision process was not linear. ZL agreed to take this forward with Nick Pettit and Keith Cowell to provide more information on the decision process. It was considered too early for this to be an issue for an IA. (CM left the meeting at this point on the agenda) **ii. Appointment of Internal and External Auditors** *(Papers provided in advance)* Members considered the papers and evaluation criteria, and agreed to recommend the re-appointment of BDO as internal auditors for 2019/20 and Buzzacott as external auditors for 2018/19. They were content that the auditors had maintained independence and VFM had been achieved. This would be recommended to the Corporation for approval on 3 April.	
6	**ANY OTHER BUSINESS** i. **Cash Flow and Banking Covenants** *(Papers and spreadsheet were circulated in advance)* Members noted the paper, and that the compliance with the covenants assumed that the sale of Queen's Park would progress at the estimated value of £19m. A fuller discussion had taken place within the risk register item above.	
7	**Date of next meeting** Wednesday 12 June 2019, 6 pm Paddington Green. Meeting closed at 8.30 pm	

Minutes taken by Zoë Lawrence 26/03/2019

SIGNED: …………………………………………. Date:

John Petrie, Chair

ACTIONS

Ref	Action	Owner	Status
4i	For the Risk Register paper for the Audit Committee to show highest risks, and highest risks of each category; and to show the projected effect of the mitigating actions.	AT	
5i	To map out the decision process past and future on the Willesden/Wembley redevelopment project.	ZL	