

CONFIRMED MINUTES

AUDIT COMMITTEE

**Minutes of the Meeting held on Wednesday, 13 June 2018 at 6.00 pm
In Room 6SW1 at the Paddington Green Campus**



Attendance

Present

John Petrie (Chair of Committee)

Jan Knight

Simon Neville

Brenda Goring Moore

(Quorum confirmed).

Also in Attendance

Amanda Thorneycroft, Chief Operating Officer

Eamon McCarroll, Group Executive Director of Finance

Katherine Patel, Buzzacotts Financial Statement Auditors

Chris Grubb, BDO Internal Audit Service (Items 11, 12 & 13 only)

Natalie Watt, Interim Clerk to the Corporation (Minutes)

*Agenda items were taken in the order of the minutes below.

1. **Attendance and Apologies for Absence** **Action**
None.
2. **Declarations of Interest**
There were no declarations of interest other than those in the Register of Interests.
3. **Health and Safety Announcements**
Standard arrangements in place for those on site at college venues.
4. **Chair Announcements**
None
11. **Review of Internal Audit Recommendation Tracker**
 - The Executive Director of Finance informed the Committee that the Audit recommendation tracker for the CNWL had been reviewed. The area shaded in grey on the report were being recommended for removal.
 - Governors considered 4.2 and stated that the recommendation on safeguarding should be retained and expressed concern at the style of the management comment. Governors requested that consideration be given to what alternative action may be needed to address the issue. It was agreed that this would be reviewed.
 - The Chair of the Committee queried whether the same approach had been adopted across both Colleges. The Committee was advised that the Colleges were currently still reporting separately on pre-merger legacy recommendations.
 - Governors requested that one format be adopted encompassing both for the following year for ease of monitoring.
 - Governors also requested that attention be paid capturing themes as well as specific issues. Noted.**Grp
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COO

- 4.7 Governors sought assurance that this recommendation was no longer relevant. The Group Executive Director of Finance confirmed that Pro solution had now been adopted at CNWL and was in operation since June.
- Follow-Up - Governors queried the outstanding action and were reminded that a GDPR Policy had been submitted to the Corporation and the Group was compliant with GDPR requirements.
- The Interim Clerk informed the Committee that the Search and Governance Committee had also reviewed a policy specific to Governors information and this was coming to the 4th July Corporation meeting for approval.
- CWC Action Log – The COO informed the Committee that one action had remained outstanding relation to Health and Safety, however, she had just met with the Committee and the matter had now been addressed.
- It was noted that a follow piece of work was being undertaken by the H&S consultants which would resolve all outstanding matters.

The Committee **RESOLVED** to **RECEIVE** the Audit Implementation tracker logs for CNWL and CWC.

12. Internal Audit Plan 2017-18 Progress Report

- The Committee were reminded that the Internal Audit Plan for the previous year had not been approved until later in the academic year. As a result of this a reduced number of audits were programmed.
- It was anticipated that a number of reports would be carried forward to the Autumn Term Committee meeting.
- The Internal Auditors informed the Committee that there had been no changes to the plan. The Committee were informed that the audit of the Management information Systems was an additional request by the management team and would now be delivered in July.
- Governors were informed that there were some emerging themes and these had been fed back to the management team.
- The Committee were advised that any audits that contained limited assurance would be reported on in detail at the next Committee. The Committee were also informed that management comments had now been reported back on all draft audits and completed reports would come to the November Committee.
- Members expressed some concern that the reports had not been ready for the Summer Term but were reminded of the lateness of the start of the Internal Audit Programme.
- It was noted that the year-end report would provide an overview for the past year and that any significant changes would be flagged up.

The Committee **RESOLVED** to **RECEIVE** the Internal Audit Progress Report.

13. Internal Audit Reports

a) Review of IT Security

- Governors noted the management comment on page 11 of the IT Security Audit Report and noted that appropriate authority needed to be given to staff to enable them to deliver to the actions identified by management.
- Governors noted that the review addresses IT across both colleges but queried whether or not it would be more appropriate to conduct a cyber review.
- The Auditors confirmed that 8 recommendations had been largely accepted apart from the one relating to student passwords.
- Discussion followed on the challenges of this recommendations and the Auditors confirm that they had acknowledged the reasons put forward by management for non-compliance.

- The Auditors confirmed that there were no fundamental weaknesses identified.
- Governors noted that the issue raised in relation is student passwords would need to be kept under review.

The Committee **RECEIVED** the report for information and monitoring.

a) Bursary Payments Review

- The COO discussed the review of the pay my student system in operation at CNWL and the weaknesses identified.
- The Committee were informed that the Group was now moving back to a paper based system which it was anticipated would be more user friendly and robust.
- Discussion followed on the issues of control of Bursaries at CNWL and the challenges of operating a purely on line system for students whose first language was not English.
- The Committee were informed that additional resources had been put into CNWL to ensure that Students received the bursaries appropriately.
- A new system would be in operation across both colleges from September. Governors noted the challenges of integrating two opposing systems providing support to a diverse range of students against a backdrop of staffing restructures.

The Committee **RECEIVED** the report for information and monitoring.

5. Minutes of the following meetings:

- b) Minutes of the meeting held on the 6 December 2017 were **APPROVED** as a true and fair record of the meeting and were signed by the Chair.**
- e) Minutes of the meeting held on 14 March 2018 were **APPROVED** as a true and fair record of the meeting and were signed by the Chair.**

6. Matters Arising

- All matters were raised on the agenda of the meeting.

7. External Auditors' Audit Plan 2017/18 and Engagement Letter (to follow)

- The report was presented by Buzzacotts. The Committee were informed that the accounts would be completed for the first year of merger. A planning meeting had been held and the plan presented had been agreed with the management team. The Committee were taken through the following:
 - Overview of arrangements
 - Financial Statements Audit
 - 2017/18 Accounts Direction
 - Regularity Assurance – the Interim Clerk requested that the Regularity Questionnaire be provided to her direct via email for initial completion of Governance aspects. Agreed.
- The Committees attention as drawn to the issues of audit significance identified in the report relation to:
 - Income recognition
 - Bank loan covenants
 - Staff Restructuring
 - Management Override Controls
 - Related Party Transactions
 - Accounting estimates Merger Accounting
 - Regularity

- Sub-Contractor Provision
 - It was noted that the key dates for the Corporation and Committees would be fed into the plan following approval by the Corporation.
 - The Committee were informed that the Financial Statements Auditors would be working closely with the Group Executive Director of Finance. Any items of materiality would be identified and reported back as part of the management letter. Governors queried what the level of materiality would be. They were informed that materiality for an organisation with a 40-50m turnover this would be considered to be 1% and above.
 - The Committee were informed that there would be no comparators available as the two colleges were in the first year of merger.
 - Governors queried whether any gap analysis had been conducted, are there any areas which may need to be considered in more details? In response the Financial Statements Auditors discussed the complexities of depreciation with regard to fixtures and fittings if the two Colleges had adopted different approaches previously.
 - Governors also queried whether issues relating to Bursaries which has arisen earlier in the year would be considered as significant. The Financial Statements Auditors confirmed that they would not be an issue as the matter was resolved and the area reviewed by the Internal Audit Service on whom they would place significant reliance.
 - Governors noted the Fees proposed. The Financial Statements Auditors confirmed that they had reviewed their fees as requested by the College Management. However, some of the charges would be increased for this current year post merger e.g. there were two TPS areas to be considered for the audit. Noted.
 - Further discussion followed on the use of comparators and the challenge around this post-merger. The Committees attention was drawn to Appendix 1 and the timetable proposed was noted.
 - Governors noted the useful update on sector developments at Appendix 4 which provided a snapshot of the challenges facing the sector at this time. Governors requested, that the CEO, as part of his report to the Corporation, provide a brief update on how these matters were impacting on the Group (or not) and how UCG was meeting and dealing with these challenges.
 - Governors discussed the challenges and risks of sub-contracting and were assured that this area would be covered as part of the audit of the financial statements and regularity.
 - Discussion followed on management charges and potential VAT issues. The COO informed the Committee that she has taken advice from the VAT advisors retained by the Group (RSM Tenon) and there were no significant risks to the Group in relation to VAT.

CEO

The Committee **RESOLVED** to **RECOMMEND** the Financial Statements External Audit Strategy and Engagement Letter to the Corporation for **APPROVAL**.

9. Review of Banking Covenants –To Follow Paper.

Subject to Part Two Minutes - Confidential.

10. Risk Management Review of High Level Risks

- The Group Executive Director of Finance presented the report. The Committee were advised that key officers had been involved in updating the register and the Senior Team had reviewed the list of high risks.
- Discussion followed on the residual risks and the scoring system. Governor's attention was drawn to the red risks, e.g. bank covenants.
- Governors asked for the risk management process to be summarised and an overview included in reports for Governors reference.

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Exec.**

- Governors queried why the risk of cyber IT issues was not included and suggested it should e.g The Group Executive Director of Finance informed the Committee that it may well have been identified as a risk but depending on the scoring system may not have made it to the top level.
- Governors queried the effectiveness of the system and stated that a judgements may need to take place regardless of what the score was for a significant business risk. It was agreed that this would be brought back to SLT for further consideration.
- Governors requested that risks identified at 7.1 and 7.8 be reviewed further. Agreed. Governors queried the risks identified as GREEN. It was noted that where Internal Audit Reports indicated a risk that this should be cross referenced to the risk register and the risk register amended accordingly. Agreed.
- It was noted that the full annual risk register would come back to Corporation in the Autumn Term.
- The Chair of the Committee emphasised the need for correlation across all areas of information before deciding on the rating for a risk and how it was mitigated. Noted.
- Discussion followed on the IT testing of systems. The COO confirmed that some penetrative testing had taken place but agreed to review when this should take place again to test the cyber scrutiny systems.
- Governors challenged the Executive to ensure that the actions identified were robust and had impact.
- It was noted that the restructuring of teams for example could be linked through to risk 3.3.
- Following discussion it was noted that more work may be needed to ensure risk owners interrogated the mitigating actions to ensure they were fit for purpose.
- Governors queried the length of the risk register and proposed that it be reduced down to the top ten risks.
- The Committee accepted that a larger register was needed to underpin it but proposed that a shorter more focussed and strategic top risk summary would enable Governors to monitor it more effectively.
- Discussion also followed on materiality of risks. Governors suggested that further training may be needed in this area. It was agreed that this would be considered.
- Governors requested that future reports have a top 10/11 risks, that were rated RED at the front and included in an executive summary.
- The COO informed the Committee that combining the risk management processes was still a WIP. Discussion followed on the need for the top risks to be clear to help inform strategic decision making. However, it was acknowledged the property projects would have a specific risk register.
- Governors queried how aware staff at all levels of the organisation were of the risk management processes. The COO was positive about the level of staff awareness and informed Governors that staff were engaged in the process.

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The Committee **RESOLVED** to **RECEIVE** the report.

*The Financial Statement Auditors left the meeting at this point.

8. Appointment of Internal Audit Services for 2018/19 – PART TWO

Subject to Part Two Confidential Minutes.

14. Any Other Items of Urgent Business

- **Financial Health** – The COO advised the Committee of the potential implications around the Financial Health of the College.

- It was agreed that this would be discussed further when the budget was submitted to the Corporation for approval on the 4th July 2018.

15. **Date of Next Meeting**

- To be confirmed pending approval of the annual schedule.

16. **Issues of Confidentiality**

It was **agreed** that, all Items are to remain confidential until formal approval of items recommended to the Corporation took place.

The meeting closed at 6.40 pm.

Signed: _____ Date: _____
Chair