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THE WKCIC GROUP

AUDIT COMMITTEE

Minutes of the Meeting held on 22nd NOVEMBER 2016

PRESENT Michael Bradley, Joel Featherman, Mike Magras, Fiona Thompson (Chair)

IN ATTENDANCE Graham Drummond (Director of Governance), Paul Stephen (Group Finance Director), Caireen Mitchell (Group Director Planning and Performance) Avnish Savjani (Buzacott LLP, External Auditors), Katharine Patel (Buzacott LLP, External Auditors), Graeme Clarke (Mazars, Internal Auditors), Lee Newman (Mazars, Internal Auditors), Graham Cooper (Deputy Clerk)

APOLOGIES Leslie Brissett

The Chair welcomed Mike Magras, Staff Governor, to his first meeting of the Committee.

1. **MINUTES OF THE MEETING HELD ON 27th SEPTEMBER 2016** **Action**
The minutes were agreed and signed by the Chair as a correct record.

2. **MATTERS ARISING** **GD/FT**
With respect to item 2 and the recruitment of a further co-opted member of the committee, this would be taken forward by the Director of Governance and the Chair of the committee.

With respect to item 3, the committee's terms of reference and business schedule, these would be reviewed under agenda item 9.

With respect to item 4, the 2015/16 Internal Audit Reports and Internal Audit Plan 2016/17:
 - o Outstanding recommendations from Internal Audit Reports would be discussed under agenda item 3.
 - o With respect to oversight and assurance on Health and Safety matters, independent audits had been undertaken at both colleges. The review at WKC had highlighted no significant issues. The review at CIC had highlighted some non-compliance by subcontractors and this would be followed up. Oversight of Health & Safety is provided by a Health and Safety Committee that meets once per term. A Health and Safety report will be provided to the next meeting of the committee. **PS**The committee also noted that at WKC there had previously been a nominated governor for Health and Safety, although this role had yet to be established for the merged group and this matter would be taken forward to the Chairs Committee. **FT**

- With respect to item 5, amendments had been made, as agreed by the committee, to the self-assessment questionnaires used as part of the regularity audit, and these had been signed by the Chair of the Board and the CEO.

3. **INTERNAL AUDIT: OUTSTANDING ACTIONS**
A report from management was received setting out the progress in implementing

outstanding internal audit recommendations. The committee noted that:

- The committee had expressed concern at its meeting on 27th September 2016 regarding the number of outstanding internal audit recommendations that were not listed as having been actioned.
- A summary of the current position was now provided, setting out which recommendations were no longer applicable following the merger and those that remained outstanding. Of the 73 recommendations brought forward into this academic year, 61 (84%) had been assessed by management as having been completed and 12 (14%) as incomplete. Of the 12, 7 related to WKC and 5 related to CIC, in relation to areas where the Group's strategic position still needed to be developed to enable appropriate progress to be completed.
- The Internal Auditors would be undertaking a follow-up visit during the week commencing 14th November 2016 in order to assess the evidence provided by management in making its judgements and a report from the Internal Auditors will be provided to the March 2017 meeting of the Committee.

4.1 POST AUDIT MANAGEMENT REPORTS (FINANCIAL STATEMENTS AND REGULARITY AUDIT)

Separate Post Audit Management Reports relating to the WKCIC Group (formerly WKC) and to CIC were received and considered.

WKCIC Group

The committee noted that:

- The report set out the scope of the audit work. The external auditors had found no significant deficiencies in accounting and internal control systems and it was their intention to issue an unqualified opinion with respect to the financial statements and regularity audits.
- The audit had run smoothly, with only a few outstanding queries and the receipt of the SFA funding reconciliation, due in early December.
- Whilst the Members' Report reflects post balance sheet developments (i.e. the creation of the WKCIC Group) the financial statements reflect the trading performance of WKC only.
- As the 2015/16 Financial Statements had been prepared in accordance with the new HE/FE Statement of Recommended Practice (SORP) FRS102, revised comparative figures for 2014/15 were provided. The main issues arising from the implementation of FRS102 related to a pension scheme adjustment, adjustments to staff costs in respect of holiday pay accrual and an adjustment to income in relation to the treatment of release of non-government grants.
- The Group's London Government Pension Scheme (LGPS) liability as at 31st July 2016 was £24,535k (2015 equivalent £18,535k), the increase having a material impact on reserves, but one which the committee noted was externally determined based on actuarial calculations and outside the Group's control.
- Revaluation of land in the balance sheet had significantly increased total net assets.
- The report included a reminder of the obligations of members of the Board in relation to the signing of the statement in the annual report that they believe that the WKCIC Group is a going concern, and of the information that members of the Board must review on a regular basis to support making this statement.
- No significant deficiencies in the accounting and internal control systems had been identified during the audit. There had been only one observation and recommendation, relating to bad debt provision.
- The Financial Statements for the year complied in full with the new UK accounting

standard FRS102. This included Section 34 (Retirement Benefits), which had had a significant impact on the results for the year, the detail of which was included in the report and explained.

- Included in the report was a ratio analysis indicating that the Group has very strong financial ratios. The Group is graded by the SFA as Outstanding in terms of financial health.

CIC

The committee noted that:

- The report was in a similar format to that of the new WKCIC Group. The CIC audit had also run very smoothly, and a summary of the current status of the audit and matters yet to be completed was provided, including receipt of the SFA funding reconciliation, due in early December.
- The External Auditors had found no significant deficiencies in accounting and internal control systems and it was their intention to issue an unqualified opinion with respect to the financial statements and regularity audits.
- As with WKCIC Group, there had been adjustments arising from the implementation of FRS102 in respect of pension scheme adjustments and holiday pay accrual. Similar issues in relation to CIC's LGPS pension liability existed as with those of the Group as a whole.
- There were no recommendations arising from the audit. Similar ratio analysis, accounting policy updates etc. were provided as per the WKCIC post management audit report.

The Committee thanked the External Auditors for their work on the audits and for their reports

4.2 AUDIT REPRESENTATIONS LETTERS

The Committee received draft letters of representations for CIC and for the WKCIC Group. The External Auditor clarified that the CIC letter should be signed by Alastair Da Costa as Chair of the Corporation (not by the CEO as stated in the draft) and that the WKCIC letter should also be signed by Alastair Da Costa as Chair of the Board of the merged Group. It was **agreed** to recommend to the Board the signing of both of the letters accordingly.

5. REPORT AND FINANCIAL STATEMENTS 2015-16

The Committee received the Report and Financial Statements for the WKCIC Group (formerly WKC) and for CIC for the year ended 31st July 2016. The Committee noted that:

- The External Auditor confirmed that the Report and Financial statements complied with all new formatting requirements arising from the implementation of FRS102 and as required by the SFA.
- The reports followed slightly different formats to those of the previous year for each college. It was not intended to harmonise the format for the 2015/16, but work would be undertaken on a new format for the year ended 31st July 2017. This would be highlighted when presenting the reports to the Board for approval.
- The Committee advised that further prominence should be given in the report to the merger of WKC and CIC by including reference to this at the beginning, in order to more fully set the context, to also include reference to the development of the Group's new strategic plan.
- A suggestion was made that in relation to the WKCIC Group Report, further prominence should be given to the outcome of the WKC Ofsted inspection, as in the

case of the CIC Report.

- Consideration would be given to producing a separate annual review document, with key facts about the Group, more suitable for widespread distribution.
- It was agreed that all members of the Committee would email the Group Finance Director with any minor corrections to the text or further suggestions by 1st December in order for the reports to be updated before going forward to the 14th December Board meeting for approval.

PS

**All
Committee
members
and PS**

6. RISK REGISTER

A report, with the new WKCIC Risk Register appended, was received and considered. The Committee noted that:

- At the last Audit committee meeting, the committee had reviewed the format of the risk register and the initial risks identified. It had been agreed that the risk register would be populated and provided to this next meeting of the committee.
- The Group Leadership Team (GLT) considered that the risk register as now presented to this meeting incorporated the main risks at Group level, with the top 5 risks specifically summarised, although further work was needed to refine the risk register. In particular, whilst major risks had been identified, further consideration was needed in relation to the scoring of individual risks. A review of the risk register, along with the operational plan, was due to be undertaken by the GLT at its forthcoming away-day and would be undertaken on a termly basis going forward.
- The committee commended the fact that the risk register was directly linked to the Group's Operational Plan, although made a number of observations and suggestions for consideration by the GLT in developing the risk register further, in particular:
 - Whether failure to develop a balanced budget, or more specifically risks that might cause this, such as failure to achieve enrolments sufficient to deliver this, should be specifically included as risks to the extent that they are not already.
 - The committee suggested that some of the actions in the risk register, whilst aligning closely to delivery of the Operational Plan, should be more specifically actions relating to risk mitigation.

7. OUTCOME OF SFA AUDIT

A report was considered and received. The committee noted that:

- WKC had been the subject of a funding regulations audit by the SFA. Colleges are audited by the SFA on a regular basis and WKC had been selected as part of a random sample for 2015/16, not on the basis of risk.
- The audit report had only just been received by the college and the college was yet to respond to the report.
- The audit had been considerably more in-depth than the college had had previously from both external and internal audit, and the initial sample size of 210 records had been extended to more than 500 records.
- Five significant funding issues had been identified, two of which related to adult learners and three to apprenticeships. A number of additional areas to be addressed where there was little or no financial implication had also been identified.
- As a result of the audit, c. £561k had been removed from the WKC funding claim for apprenticeships and adult funding for 2015/16, which had a direct adverse impact on WKC's financial out-turn for the year and was reflected in the draft financial statements presented earlier during the meeting. A further c. £37k had been removed from the 16-18 funding, but had no impact on income levels.
- A meeting had been scheduled with the internal auditors to discuss the findings of the report.

The Committee expressed considerable concerns regarding the size of the reduction in the funding claim and its impact on the 2015/16 financial outturn, and stressed the importance of gaining a full understanding of how this had arisen without the college or Governors being aware, and the issues that need to be addressed and procedures that need to be put in place in order to prevent this happening again in the future.

The Group Finance Director advised that he would also be informing the Finance & Resources Committee of the outcome of the audit, as the very recent nature of the report meant that the figures presented to the last meeting of the Finance & Resources Committee did not include this impact. He advised that in relation to the latest forecast presented to the Board, the adjustments meant that the financial out-turn for the year was c. £228k worse than then draft financial statements shared with governors in September. The wording of the Audit Committee annual report to the Board would also need to be updated.

PS and
GD

The Chair also requested that the Committee is provided with a note on the outcome of the planned meeting with the internal auditors.

CM

8. DRAFT ANNUAL REPORT TO THE BOARD 2015-16

A report was considered and received. The committee noted that:

- The report would be amended subject to the discussion and agreements that had been made during this meeting. Importantly, the report required to be updated to reflect the outcome of the SFA Audit.
- Whilst a summary of recommendations during the previous twelve months was included in the report, it was suggested that some further context could be added relating to the individual audit performance of WKC and CIC.
- There were no matters arising from the post audit management letters that needed to be included in the report.
- There might be a need to update section 7 relating to the top five risks from the risk register following the further review of the risk register by the GLT.

CM

The Internal Auditor advised that the Audit Code of Practice requires a copy of this report to be submitted to the SFA. The External Auditor advised of the need to include information relating to contracts.

It was **agreed** that the draft report would be updated and re-circulated to members of the Committee for any further comment prior to submission to the Board meeting on 14th December.

GD

9. REVISED TERMS OF REFERENCE

A revised draft set of Terms of Reference for the committee along with an updated proposed business schedule were considered and received by the committee. The Committee noted that:

- The drafts had been updated in accordance with discussions at the committee's meeting of 27th September 2016.
- A provision had been added that, in line with the Audit Code of Practice, the committee reserves the right to maintain its independence in recommending the appointment of committee members in line with the needs of carrying out its responsibilities as specified in the Terms of Reference. Provisions relating to the committee's powers of investigation had also been updated in accordance with provisions of the Code.
- In line with a recommendation of the AoC's Code of Governance, a clause had been

inserted with respect to assurance on data quality management. Further consideration would be given to the information needed in order to provide that assurance. **GD/FT**

The committee discussed the need for Key Performance Indicators in respect of the Group's performance in relation to audit matters (as distinct from the committee's performance). The External Auditor agreed to provide some examples from their work with other colleges. **KP**

The committee agreed a number of further additions to the draft schedule of business, specifically an annual review of the Group's insurance arrangements and provision for regular discussions between the Committee and the Internal Auditors and External Auditors without members of the Senior Group Leadership team present. **GD**

10. FINANCE & RESOURCES COMMITTEE MINUTES OF MEETING OF 27TH SEPTEMBER 2016

The minutes of the meeting held on 27th September 2016 were considered and received.

The Committee held a confidential discussion with the External Auditors and Internal Auditors without management present, for which there is a confidential minute.

Signed as a correct record: _____

Fiona Thompson, Chair of the Committee