

**THE WKCIC
GROUP**

AUDIT COMMITTEE

Minutes of the Meeting held on 26th September 2016

PRESENT Mike Bradley, Joel Featherman, Fiona Thompson (Chair), Andy Wilson.

IN ATTENDANCE Graeme Clarke (Mazars), Graham Drummond (Clerk), Paul Stephen, Caireen Mitchell (items 1-3 and 7), Lee Newman (Mazars)

1. APOLOGIES FOR ABSENCE

Action

Apologies were received from Leslie Brissett

It was further noted that Mike Magras (staff governor) had agreed to join the committee however he was unable to join this meeting, but would be available for the committee's November meeting.

2 MINUTES FROM PREVIOUS COLLEGE MEETINGS

The committee received the minutes from City and Islington College's Audit Committee which had met for its final time on 15th June 2016. The Committee noted that:

- With respect to item 3 and the external audit approach, the new reporting arrangements under the Statement of Recommended Accounting Practice (SORP) and the Financial Reporting Standard 102 (FRS 102) have been defined and agreed;
- With respect to item 4 and the internal audit reports 2015/16 there were 24 outstanding recommendations. The committee agreed to discuss this issue later on in the agenda. It was also noted that a second space utilisation survey will be carried out in the week prior to half term;
- With respect to item 5 and the transition of oversight responsibilities to the Group's new audit committee, insurance has been taken out to indemnify those governors who stood down from both colleges against any blame for actions or omissions whilst the predecessor colleges were in action. Members of the former committee had also emphasized the importance of having robust segregation of duties and a high degree of internal controls and that the new audit committee should seek assurance from the internal auditors that this was the case;
- With respect to item 7 and the Finance and Resources Committee minutes, the committee would continue to receive these minutes as and when they were available.

The committee received the minutes from Westminster Kingsway College's inquorate meeting of its Audit Committee on 14th June. The Committee noted that:

- With respect to External Audit Plan the new Board had approved the approach with respect to the new accounting reporting standards at its meeting on 20th July;
- There had been a number of outstanding internal audit actions which were unresolved, which would be discussed later in the agenda;

It was noted that Andrew Inkester had been a valuable co-opted member of the Audit Committee. It was agreed that the Chair of this Committee and the Clerk would explore the possibility of him joining this committee.

GD/FT

3. TERMS OF REFERENCE AND BUSINESS SCHEDULE

A draft set of terms of reference for the committee, along with a proposed schedule of business was considered and received by the committee. Members noted that:

- A copy of the revised Joint Audit Code of Practice (JACOP), along with the HM Treasury's Risk and Assurance Committee handbook had been forwarded to the clerk prior to the meeting. The draft terms of this committee would be cross referenced against these documents by the Clerk. It was further noted that consideration should be given to including the responsibility of monitoring the quality of data in line with the AoC's Code of Governance that audit committees should make statements with respect to data quality;

GD

GD

The committee were of the view that there were a number of omissions within the current draft terms of reference, including:

- The receipt and consideration of the annual Report and Financial Statements;
- The responsibility of the committee to ensure that the Group has sufficient robust financial controls in place;
- To oversee the arrangements with regards to the prevention of Fraud and the associated Whistleblowing policy;
- The monitoring of the College's insurance arrangements.

The committee considered the draft schedule of business, the following amendments were agreed:

- Key Performance Indicators for both the internal and external auditors are to be included within their annual review. It was agreed that the timing of these reports would be agreed by the Group Finance Director and the Director of Governance and the Schedule updated accordingly;
- A report on the incidences of Fraud and /or Whistleblowing to be included within the schedule, even if the report was to acknowledge a nil return for the year;
- The internal audit plan should be agreed prior to the start of the financial year.

The committee **AGREED** that a revised set of terms of reference would be circulated to committee members prior to seeking final approval for their contents by the Board.

GD

4. 2015/16 INTERNAL AUDIT REPORTS AND INTERNAL AUDIT PLAN 2016/17

The committee considered and received the annual internal audit reports for both colleges for the year ending July 2016.

With respect to City and Islington College's annual internal audit report the committee noted that:

- The report was brief in nature, and because of this it was further noted that if it was the view of the Financial Statements auditors that insufficient assurance could be placed on its contents, then the Group Director of Finance would ask KPMG to provide added and sufficient assurance within the report;
- The CIC Audit Committee approved a reduction in the original internal audit plan of 65 days to 24 days because some of the areas chosen within the plan had been superseded by the merger process Additional audits on funding and sub-contractor compliance had been commissioned during 2015/16 taking the total number of days up to 54.

GD

The committee **AGREED**:

- That assurance would need to be provided by the current internal audit service and management that the recommendations included within the report (summarised on page 7) had been resolved or did not represent significant risk, especially the two risks identified as having high priority. This assurance would be provided to the committee at its next meeting.

GC/PS

With respect to Westminster Kingsway College's annual internal report, the committee noted that:

- An opinion had been provided by Mazars that the College's governance, risk management and internal control arrangements are adequate to achieve the management of its objectives;
- During the year, 50 recommendations had been made of which 14 were considered be of significant priority (level 2). A summary of these level 2 recommendations were detailed within appendix 2 of the report;
- The report included a benchmark analysis of the number and nature of recommendations and assurance, made in comparison to other clients with respect to Core Financial Systems and Learner Number controls. The College compared favourably with respect to other clients, for example no level 1 or level 2 priority recommendations had been made with respect to Core Financial systems (as compared to 29% for level 2 and 2% level 1 for the client base);
- There were a number of outstanding recommendations which would be actioned in time for the internal audit follow-up scheduled for November 2016.

PS

The committee then considered the contents of the proposed internal audit plan for 2016/17. It was noted:

- That in the experience of the internal audit service a key area for scrutiny in the first year of a merger should be in relation to the effective harmonisation of systems especially learner number systems.
- That information technology systems would be reviewed in year 2 of internal auditors' operations.
- The scrutiny of Health and Safety had not been included within the plan. It was further noted that both or either of the Colleges were often subject to rigorous Health and Safety external audits e.g. by the HSE and that there was a Health and Safety Committee which served as a key oversight group.
- Prior to the internal audit carrying out its work the scope and process of how the plan would be carried out will be agreed between management and the internal audit service. Consideration would also be given as to where assurance will be needed to be given to governors in relation to the key risks facing the Group.

GC

It was **AGREED**:

- To recommend the adoption of the plan as proposed within the paper.
- That an assurance with respect to Health and Safety would be provided at the next meeting. This assurance could be given orally.

PS

5. FINANCIAL STATEMENTS AND REGULARITY AUDIT JULY 2016

An update on the progress of the Financial Statement audit of both colleges was considered and received. The committee noted that:

- CIC's audit is almost completed and WKC's has just started;
- The trading performance of both colleges had exceeded the budgets agreed with the respective boards, however both colleges have been subject to higher than expected FRS102 (formerly FRS17) charges to their Income and Expenditure account, due to an actuarial valuation of the LGPS pension scheme which has significantly increased the colleges' pension liabilities with respect to non-teaching staff. The outcome of these charges will mean that CIC is currently reporting an accounting deficit of £794k and WKC is reporting a deficit of £391k, with the final outturn subject to any final adjustments arising from confirmation from SFA of the year end ILR submission and any external audit findings. It was further noted that these pension adjustments were notional in nature and do not effect cash or short term commitments. The FRS 102 charge also does not impact on the SFA's assessment of the colleges' outstanding financial health status and Barclays Bank (the Group's bankers) do not take into account these adjustments when making client assessments.

The committee agreed with management's view that at this stage no additional contributions from the Group's cash reserves should be made to reduce the deficit of the LGPS scheme.

The committee also received copies of both Colleges' self-assessment which are used as part of the regularity audit and which have to be signed by the Chief Executive and the Chair of the Board. Some minor amendments were suggested e.g reference to the Essential Trustee, Governors not approving funding audits and the amount spent on international travel by WKC (to be checked for accuracy).

PS

The committee agreed to recommend the signing of both questionnaires by the Chair and the CEO.

6. FINANCIAL REGULATIONS

The Financial Ethics and Treasury Management policies were considered and received.

With respect to the Group's Treasury management policy the committee noted and agreed that the maximum that could be deposited with any one institution shall be £6m unless a higher amount is authorised by the Chair of Finances & Resources Committee or the Chair of the Corporation.

Included within the Ethics policy was the Group's Whistleblowing policy which is based on CIC's approach and had been reviewed by Eversheds. This policy was also to be reviewed by the Chairs' Group.

GD

It was agreed that as it was the end of the meeting, suggestions for amendments to the document would be circulated to the Clerk outside of the meeting. A final amended version of both documents would then be circulated for any final comments prior to adoption by the Group.

7. RISK REGISTER

A proposed template for a risk register to be used by the Group, with the key risk headings was considered and received. The committee noted that:

- The intention is that the management and assessment of risk will be a bottom upwards and top downwards process;
- The template was based on the approach formerly adopted by Westminster Kingsway College where the process had been judged to be adequate by the internal audit service;
- It is intended that the risk register will be linked to the operational plan;
- The register would be fully populated in time for the committee's next meeting.

CM

The committee **AGREED:**

- that the risk register should consider more explicit reference to:
 - Partnerships and sub-contractors
 - Students and safeguarding
 - Educational outcomes
- that only those risks which are of significant concern should be included within the top (approximately) five risks, highlighted on the front sheet of the register.

CM

The committee also recommended that the register is reported to the Chairs' Group and to the December Board meeting. The respective sections would also be reported to the relevant committees.

GD

The committee welcomed the proposed approach to risk assessment and management particularly the straightforward nature of the risk register template.

Signed as a correct record: _____

Fiona Thompson, Chair of the Committee