



MINUTES
of the Audit Committee
held on Monday 21 November 2016

Present: - Mr Norman Moon (Chair)
Mr Simon Bennett
Cllr Sebastian Bowen
Ms Sally Cassels
Mrs Magda Prail

In attendance: - Mr Edward Gwillim (Director of Finance)
Mrs Linda Watkins (Clerk to the Corporation)
Ms Louise Tweedie (RSM)
Mr Matthew Chapman (PricewaterhouseCoopers)

The meeting was quorate as five members were present.

- | | Action |
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| <p>5. Apologies for Absence
No apologies</p> | |
| <p>6. Declarations of Interest
There were no declarations.</p> | |
| <p>7. I. Approval of the Minutes of the Meeting
The Chair signed the minutes of the meeting held on 13 June 2016 as a true and accurate record.</p> <p>II. Matters Arising</p> <p>A. A new Member asked for a definition of electronic tagging. This is HMRC's method to electronically read the financial statements.</p> <p>B. A Member asked for clarification about the level of materiality set at £310,000. It was explained that this is the threshold set for each audit in accounts. It is 2% of College income which is the standard level in the sector.</p> <p>C. Risk 'E.5' related to the planning application for Hereford Campus and conditions regarding the traffic flow which had not been implemented. There were no issues regarding this.</p> | |
| <p>8. Financial Statements Auditor's Report</p> <p>I. Members' Report and Financial Statements for the year ended 31 July 2016
The financial statements to 31 July 2016 were noted for Herefordshire and Ludlow College and Keith St Peters Ltd.</p> | |

The F&E Committee would discuss the financial statements and make a recommendation to the Board to approve these.

II. Management Letter including Interim Regularity Report

Matthew Chapman presented the management letter in detail covering the purpose of the financial statements audit, financial performance, significant risks, accounting and audit issues to provide assurance for the Corporation to sign off the financial statements to 31 July 2016.

He recorded appreciation to the Director of Finance and team for their cooperation confirming that the audit had gone smoothly.

Governors were reminded that the write off of goodwill for KSP Ltd and the sale of land at Holme Lacy are exceptional items in this year's accounts. The balance sheet was affected by the pension deficit. It would be crucial to cautiously manage finances next year.

The status of work in areas which had not yet been finalised was outlined.

- A. Confirmation of the pension liability for Ludlow College employees who had transferred from Shropshire to the Worcester County Council Scheme was a liability of £400,000. This included support staff who had transferred from Ludlow College and employees at Herefordshire and Ludlow College. This transfer was late in September 2016 following approval by the Department for Work and Pensions. A Member asked if this was allocated in the financial statements; it had not been allocated. There was a further question as to whether this would be completed in time to sign off in the financial statements. This was uncertain; however, it was not anticipated that this would result in a qualified opinion, but reported with a note. The potential impact of County Training's pension scheme was raised noting that the existing pension schemes would continue as County Training continued to exist. A Member asked if the timing of pension scheme reviews was likely to cause any issues which was not anticipated.
- B. SFA/EFA funding confirmation receipt. This remained outstanding.

A summary of the five misstatements were presented in the management letter showing uncorrected misstatements and a net credit of £74,000. This would be amended in the financial statements and reported as corrected misstatements. The Teachers' Pension Scheme return has been certified with no matters to report. The College is required to submit the management letter to the SFA in accordance with the

E Gwillim

Financial Memorandum.

The level of materiality used for KSP Ltd was £3000. Transition to FRS102 had not been included in KSP Ltd accounts; these are being adjusted. HLC accounts showed goodwill of £300,000 had been written off for KSP Ltd since 2010, this would be written off as a lump sum from 2014 when FRS102 was implemented. £200,000 had been written off previously. A Member suggested adding a note to the accounts about the adjustment. A Member asked about KSP Ltd student noting that they would move to the College. Assurance was also provided that reputation would be addressed. £377,000 investment at year end would be written off for KSP Ltd at the year end. A note would be added to show gift aid from KSP Ltd to the College as a subsidiary company.

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Internal controls for payroll and exceptional reporting had been reviewed as part of the audit. Some staff who had left College had not been removed from IT systems. RSM confirmed that an audit of payroll in 2015/16 also identified this. It is common practice for HR and payroll to be notified of staff leavers, but not necessarily the IT department. This would be audited again in 2017/18. It was agreed a link between HR and IT are required or a single directory. The Director of Finance would discuss this with the IT Manager and report back to the Committee.

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Members were asked if they were aware of any allegations of fraud. Members confirmed that they were not aware of any. The independence of the Auditors was confirmed.

III. JACOP Annex C Self-assessment of compliance with regularity and propriety requirements

This was completed to evidence how the College achieves its compliance and provide the Committee with assurance. The Principal as Accounting Officer and Chair of the Corporation would be required to sign this. PWC confirmed that a number of areas provided as evidence have been tested as part of the financial statements audit.

IV. Letter of Representation

The letter of representation would be provided for the Corporation meeting to be signed by the Chair of the Corporation.

The Committee agreed: -

- To recommend the Board approve the financial statements, including KSP Ltd accounts and management letter
- To recommend the Accounting Officer sign the self-assessment questionnaire
- To recommend the Chair of the Corporation sign the letter of representation

- To thank the Director of Finance for his role in the audit which had been a learning curve since his appointment

9. Internal Audit Reports

Louise Tweedie presented the reports:

- I. **Annual Report 2015/16:** The report provided an annual internal audit opinion on the overall adequacy and effectiveness of the College's arrangements for risk management, control and governance processes. The overall opinion of the College's internal control arrangements for the 12 months to 31 July 2016 was given the highest opinion confirming that the College had an adequate and effective framework.

There were no high priority recommendations during the year with a clean audit opinion given. A Member asked if PWC placed reliance on RSM's reports. The Auditors responded that changes in controls mean that the auditors are not permitted to work together or place reliance in the Internal Audit Service's work. However, RSM provide copies of all reports to PWC which could be considered with some cyclical tests in reports.

- II. **Progress Report:** Members noted dates of audits which would commence imminently and be reported at the next meeting. Sector updates were noted agreeing the cyber security update was extremely useful and could be shared with staff and students. This could be a useful topic for staff development.

A summary showing broad categories of risks in colleges was noted. Members agreed that the risk register included all of these risks. There was discussion on reputational risk and IT agreeing that these were surprisingly low scoring risks in some colleges.

The Committee agreed: -

- To note the internal auditor's reports
- To recommend the Board endorse the Internal Auditor's Annual Report 2015/16

10. Risk Management

- I. **Risk Management Register:** Members noted the risk register with the following specific discussion: -

A.2: FE, HE and work based learning funding not achieved: No changes.

A.12: Operating costs at County Training not reduced: Governors were reminded that a review of staff costs had commenced to reduce costs. It would be crucial to rebuild cash balances throughout the year as confirmed by PWC in their management letter.

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B.9: Operating costs at Ludlow College not reduced: The RAG rating had been reduced to green as the process to sign off leases was near completion.

A.10: Child protection and safeguarding: The Staff Governor explained that Ludlow College use an Excel spreadsheet to monitor and record incidents as opposed to a single record. The Director of Finance would investigate this along with alternative databases and costs. Members noted that the Prevent Agenda had been audited by RSM last year and it was agreed it could be timely to add safeguarding to the audit strategy.

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There was generic discussion about potential risks to IT relating to staff usage and attitude, and a further risk relating to loss of reputation as a consequence of something occurring. The Committee tasked CMT to review these. RSM would share any generic information on this.

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L Tweedie

II. **Risk Management Annual Report 2015/16:** The report was a key part in establishing compliance with the Turnbull requirements for corporate governance. The report outlined processes to manage risk and concluded that the College had robust systems to update and report on its operation which involves CMT, the Audit Committee and the Corporation. The Director of Finance was the College risk champion, whereas the Audit Committee Chair was the Board champion for risk management.

III. **Revised Risk Management Policy:**
The policy was based on the original model issued to colleges by the Learning and Skills Council in 2002. There were no significant changes.

The Committee agreed: -

- To note the risk register and task CMT to discuss adding generic risks about IT relating to staff usage and attitudes, and loss of reputation of the College
- To recommend that the Board endorse the risk management annual report 2015/16 including a revision to item 2.1 on the College's approach to risk management which referred to arrangements in 2002
- To recommend that the Board approve the Risk Management Policy

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11. **Value for Money Annual Report 2015/16**
Members noted the Annual Value for Money Report outlining procurement processes to ensure value for money. This evidenced the College had satisfactory arrangements to promote economy, efficiency and effectiveness.

The Committee agreed: -

- To recommend that the Board endorse the value for

money annual report 2015/16.

12. Audit Committee's Annual Report 2015/16

The Committee is required to present an annual report to the Board to advise on the adequacy and effectiveness of the College's internal control systems in accordance with the Joint Audit Code of Practice. This was a factual report detailing the work of the Committee in 2015/16. All aspects reported were positive.

The Committee agreed: -

- Sally Cassels' membership to the Committee would be added for 2016/17 and the opinion on the effectiveness of Auditors reiterated in section 11
- To recommend that the Board endorse the Audit Committee's Annual Report which would also be submitted to SFA

L Watkins

13. Any Other Business

There were no items.

14. Date and time of next meeting

The next meeting of the Audit Committee was arranged for Monday 27 March 2017 commencing at 3.15 pm.

Signed as a true record of proceedings

Chair: **Date:**