

NORTH HERTFORDSHIRE COLLEGE FURTHER EDUCATION CORPORATION

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee, held in Room C103, NHC Hitchin, on Thursday 26 January 2017.

PRESENT

Jeremy Newman (Chair)
Paul Holgate

Vernon McClure
Ruth Orpwood

IN ATTENDANCE

Matt Hamnett (Principal/CEO)	Drew Thomas (Interim Corporate Services Director)
Paul Harte (Finance Director)	Robert Dale (Company Secretary and Clerk to the Corporation)
David Hitchen (Director of Transformation)	
Chris Rising (RSM)	

ITEM 1a: APOLOGIES FOR ABSENCE

- Apologies for absence had been received from Kelly Dunn (KPMG Audit Partner) and Lucy Hann (Managing Director, Hart Learning & Development Ltd).

ITEM 1B: DECLARATION OF INTERESTS

- No additional interests were declared.

ITEM 1c: MINUTES OF THE PREVIOUS MEETING

- Minutes of the meeting held on 28 November 2016 were signed as an accurate record of proceedings.

ITEM 1d: MATTERS ARISING/ACTIONS

Actions had been completed as follows:

- Complete outstanding disclosures and recirculate the revised draft to the Audit Committee. **Action complete.** The Annual Report and Financial Statements were completed, approved by the Board and published by the deadline.
- Amend the draft Report and present to the Board on 5 December 2016. **Action complete.** As above.
- Make a presentation to the next meeting of the Audit Committee on Risk Management and Control. **Action complete.** On the agenda at Item 2.
- Invite Paul Holgate to provide urgent feedback on the proposed Internal Audit Plan for 2016/17. **Action complete.** Request for feedback sent.

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- Raise awareness of the whistleblowing policy and ensure that options open to potential whistleblowers were promoted. **Action ongoing.** Revised Policy on the agenda at Item 3 for review.

ITEM 2a: RISK MANAGEMENT AND CONTROL

The revised policy and procedures were presented, and the Committee asked for its view about the risk appetite for Hart Learning & Development Ltd (HL&D). Members felt that the policy was simple and should be easier for staff to understand and deliver.

Question: *should the threshold for escalating litigation risks be set lower, given that all litigation, successful or not, was costly and distracting?* This would be considered – taking account, perhaps, of the merits of the claim.

Question: *Could the analysis of mitigations distinguish between controls (things actually in place) and actions?* This would be considered for future reporting.

Question: *Could risk owners be named in future reports?* This is a planned addition.

Action: amend the Policy and procedures to take account of these suggestions.

Subject to these adjustments, the **Audit Committee endorsed** the revised Risk Management and supporting procedures.

Members considered the appropriate risk appetite for HL&D. Because the scale of this business was small, and the risks of reputational damage and financial loss would be carried by NHC, a ‘public sector’ risk appetite (ie highly prudent) was appropriate for now. This would be kept under review; when the business generated enough surplus to bear its own risk, the appetite could be modified with the Audit Committee’s consent.

Question: *How could awareness of risk be raised?* Evidence from spot checks of team and department risk registers showed that risk awareness was improving among middle managers, and the template for project planning and meeting papers included a risk review section to encourage the right behaviours.

ITEM 2b: CORPORATE RISK REGISTER

Post mitigation, two risks were classed as Amber. The first related to operations in the Kingdom of Saudi Arabia (KSA). The view was that the risk of a substantial financial loss had been considerably reduced, although there was still a potential need to provide additional funds – perhaps in December 2018.

Question: *was the judgement about this risk right?* The new Finance Director was working on forecast cashflow and balance sheet – once this was complete, the judgment could be reconsidered.

The second risk related to the quality of management information. A lot of work had been done – but until the team was confident that data capture and processing was working well, the risk would remain: SFA income was dependent on MI data. A project plan was in place, monitored by a weekly steering group meeting and additional Capita resource was available.

Question: *Did the project plan include testing?* Yes.

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Question: *Given the work in hand, was the net risk really Amber?* The team would review this judgement.

Question: *Was Risk 19 still under mitigation?* This risk had been closed since the issue of papers, because confirmation that the SFA had accepted the growth case and agreed to pay c£760k in mid-February.

Two risks had been added. The first (risk 26) concerned the ability to meet banking covenants. This was being mitigated by the disposal of the Goldsmith Building, for which an outline deal had been agreed. The other (risk 27) concerned the strength of the finance function (to be considered in more detail in Item 4). Actions to mitigate this risk had been started and a project plan was being finalised.

Question: *why had the mitigating actions for risk 28 not changed the profile?* This judgement would be reviewed.

The **Audit Committee endorsed** the Corporate Risk Register.

Action: Undertake reviews of risk judgements suggested by the Committee.

ITEM 3: WHISTLEBLOWING – POLICY AND OVERALL APPROACH

Members thought that the updated Whistleblowing Policy (developed using resources from Public Concern at Work (PCAW)) was well-written and clear. One enhancement would be examples or case studies to help staff understand what whistleblowing was.

Question: *The route for raising cases was either through line management or to the governance channel (to the Company Secretary)? Should there be an interim management option?* Taking a whistleblowing case to a senior member of staff who was seen to be independent of the usual management chain was a common approach. Offering an external option (for example, if the concern was about the Principal/Chief Executive) should be considered; PCAW offered a helpline advising on disclosure. The internal and external auditors would be approached for their guidance on this.

Subject to these adjustments, **the Audit Committee endorsed** the updated Policy and asked that it be brought back for Review annually.

Action: Add case studies/examples to the policy and consider how other routes (eg to Chair of Audit or external investigator) could be offered to potential whistleblowers in cases concerning the Principal/Chief Executive.

Action: Include review of the Policy on the agenda plan for 2017/18.

ITEM 3b: FRAUD AND WHISTLEBLOWING REPORT

No instances of Fraud had been reported during the period 25 November 2016 to 18 January 2017. During the same period, one case had been treated as a potential instance of Whistleblowing and dealt with under the current policy. In future, the Chair would like to receive a briefing as soon as a case was identified for investigation.

Action: Update procedure to include reporting to the Chair of the Audit Committee when a case is first identified.

Action: Consider adding an internal audit on petty cash handling to a future audit plan.

ITEM 4: RESPONSES TO MANAGEMENT LETTER RECOMMENDATIONS

Much work had been undertaken to improve weak VAT processes and controls identified at the last audit, including building-in monthly VAT reporting and considering the Capital Goods Scheme. There was some way to go, but progress had been made.

A plan to improve the strength of the finance function was being finalised and would be shared once completed. The appointment of a qualified financial accountant in December had begun the process, but the team had major weaknesses. Basic flaws around accounts payable/accounts receivable processes had been highlighted and the team was expected to address them quickly. In addition, poor debtor management was affecting cash flow; options for addressing this included making extra effort to request payment and expecting cost centres to recognise aged debt in their forecasts.

Question: *Could existing members of the finance team be given further training and support?* Yes, some of the team had the potential to develop, and a high percentage were apprentices – which created extra challenges for continuity and coverage. The team did not, in reality, have the capacity at present to carry that level of training need.

Question: *Were there plans for recruitment into the team?* Not at present. The plan to boost the strength of the function should proceed, but not so fast as to overstress the team; delivery of the basics had to continue while development was carried out.

Question: *Had consideration been given to withdrawing proportionate funding from academic departments that failed to follow up aged debt?* Yes, though this had not been implemented. Management Accounts reporting was being changed to highlight aged debtors to encourage behavioural change.

The Audit Committee was satisfied with the April target for strengthening the finance function and asked to see a report at its May meeting.

Action: include progress report on the finance function development on May agenda.

ITEM 5: CLOSED SESSION

The Audit Committee decided that no closed session was needed at this meeting.

ITEM 6: ANY OTHER BUSINESS

Summary of SFA Audit

The draft letter had been circulated, which had identified no issues; the final version was overdue. This would be shared with the Committee once received.

Action: circulate final version of the SFA Audit letter once received.

Internal Audit Reports

Reports would be circulated in February; timing of audits had been affected by the deferral of some 2016 committee meetings. Fieldwork on the Hertvec and sub-contracting audits was under way. The timing of meetings and internal audit activity should be kept under review.

Action: circulate Internal Audit Reports once complete.

Action: consider future timing of internal audit activity and committee schedule.

ITEM 7: DATE OF NEXT MEETING

- Tuesday 23 May 2017, starting at 18.00, at NHC Hitchin.

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Signed as an accurate record of proceedings – Chair

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Date

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AUDIT COMMITTEE ACTION LOG

Meeting	Ref	What	By whom	When	Complete
26/01/2017	2a.	Amend the Risk Management Policy and procedures to take account of Audit Committee suggestions	David Hitchen	28/02/17	
26/01/2017	2b.	Undertake reviews of risk judgements suggested by the Committee	David Hitchen	28/02/17	
26/01/2017	3a.	Include review of the Policy on the agenda plan for 2017/18.	Robert Dale	30/04/17	
26/01/2017	3b.	Update procedure to include reporting to the Chair of the Audit Committee when a case is first identified.	Drew Thomas	28/02/17	
26/01/2017	3b.	Consider including an internal audit exercise on the handling of petty cash in a future audit plan.	Paul Harte	30/04/17	
26/01/2017	4.	Include progress report on the finance function development on May agenda.	Robert Dale	28/02/17	
26/01/2017	6.	Circulate final version of the SFA Audit letter once received.	Paul Harte	28/02/17	
26/01/2017	6.	Circulate Internal Audit Reports once complete.	Paul Harte	28/02/17	
26/01/2017	6.	Consider future timing of internal audit activity and committee schedule.	Paul Harte/Robert Dale	30/04/17	

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