NORTH HERTFORDSHIRE COLLEGE FURTHER EDUCATION CORPORATION

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee, held in Room S109, Stevenage, on Monday 28 November 2016.

PRESENT

Jeremy Newman (Chair)
Vernon McClure
Ruth Orpwood

IN ATTENDANCE

Dan Battrick (Audit Manager, KPMG)
Kelly Dunn (Audit Partner, KPMG)
Matt Hamnett (Principal/CEO)
Jim Halliday (FD Solutions)
Chris Rising (RSM)
Paul Tolley (Finance Manager)
Robert Dale (Company Secretary and Clerk to the Corporation)

ITEM 1a: APOLOGIES FOR ABSENCE

- Apologies for absence had been received from Paul Holgate and from Paul Harte, newly appointed Group Finance Director.

ITEM 1b: DECLARATIONS OF INTERESTS

- The Chair reported that his daughter was employed by KPMG, though not in an audit role, and not based at any office in which the current audit team works.

ITEM 1c: MINUTES OF THE PREVIOUS MEETING

- Minutes of the meeting held on 20 June 2016 were signed as an accurate record of proceedings.

ITEM 1d: MATTERS ARISING/ACTIONS

Actions had been completed as follows:

- Schedule of Delegation. **Action complete**. A paper was going to the Board on 5 December 2016.
- Governance Audit. **Action complete**. The audit had been completed and the report was attached at Item 12b.

ITEM 2: RATIFICATION OF ITEMS CIRCULATED FOR COMMENT/APPROVAL

Two items had been circulated to members for review and approval since the last meeting. The first was a draft self-assessment against the Joint Audit Code of Practice (JACoP) produced by the EFA and SFA. It was now a requirement that this self-assessment be reviewed by a suitable committee and signed by the Corporation Chair and Accounting Officer. The draft self-assessment had been amended to take account of members' comments received and recirculated. It had then been signed by the Chair and Accounting Officer for submission to the auditors.

The Audit Committee ratified their approval of the JACoP self-assessment.

The second concerned Letters of Engagement. Clarification of the liability cap had been sought from KPMG, and the terms had been altered. The cap for the college audit has now been proposed as £15m (the period covered remained six years). The cap for the pension contribution audit is proposed to remain £100,000 and the period covered increased to six years.

The Audit Committee agreed these terms and that the engagement letters should be signed. The Chair thanked KPMG for addressing this matter pragmatically.

ITEM 3: DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS, AND EXTERNAL AUDITORS MANAGEMENT LETTER

Members considered the Management Letter and recommendations made.

This had been a year of change in the finance team and there had been much pressure on all involved in preparing the report and financial statements; the effort put in was to be commended. Paul Harte would address issues around processes, protocols, team structure and development etc in ongoing work.

Performance against banking covenants had not been closely monitored and despite the evident confidence the bank felt in the college this should be improved in future.

Management of debtors had been inconsistent, such that no provision for bad debts had initially been made. Full provision had now been made for £171,000, although some of this should be collectable. A policy to identify doubtful debts was required.

The pension deficit had increased, mainly as a result of the lower discount rate, but the assumptions used were within the auditors' benchmark range.

Question: *Was the limited preparation undertaken for FRS 102 unusual?* Yes, other colleges had undertaken more preparatory work. This was likely to be because of the lack of qualified team members. A planning document shared in May had referred to FRS 102 but the work had not been picked up.

Members nonetheless commended the hard work put in by the team, notably Paul Tolley, to get the accounts to the point reached so far.

Question: *How realistic were deadlines for responses to the control recommendations?* Appointing a qualified Finance Manager was key, but getting the right person was as important as the speed of appointment. There were other ways to cover the role in the short-term. There were also some short-term improvements in processes and procedures that could be implemented in January, and Paul Harte should be more closely involved in cash-flow forecasting in the immediate future.

The deadline for strengthening the finance team should be the end of Q1 2017. Addressing accounting policies and procedures could follow by the end of Q2. An interim approach to treasury management and cash-flow forecasting should be implemented immediately but a longer term solution was needed by the end of Q2.

The Chair thanked KPMG and members concurred that none of the outstanding points from the draft Report and Financial Statements seemed fundamental.

Although not quite completed, work on the draft Report and Accounts had continued during the day; the outstanding information was unlikely materially to affect the overall picture and were mainly linked with disclosures. A plan was agreed to have a fully completed document circulated to Audit Committee members on Wednesday, enabling them to comment and confirm their recommendation, via the Chair, before circulation to the Board on Thursday. Subject to this final review, members agreed to recommend the draft Report and Financial Statements to the Board.

Thanks were recorded to Jim Halliday and Paul Tolley, Kelly Dunn and Dan Battrick for their hard work in producing the draft.

Action: Complete the outstanding disclosures and recirculate the revised draft to the Audit Committee before distribution to the Board.

ITEM 4: INTERNAL AUDITORS ANNUAL REPORT FOR 2015/16

The Internal Auditors gave their opinion that internal control was Satisfactory, with room for improvement. Two audits (on Estates Utilisation and Risk Management) identified weaknesses meaning that partial assurance only could be gained. Members asked:

Question: *How many auditors annual reports did not identify room for improvement?* Most reports either recommended improvements or enhancements; the latter was a better position to be aimed for.

Question: *How were the key recommendations shown in the report being addressed?* David Hitchen was leading on Risk Management and had aligned policy and practice on a 'nine box model'. Time was needed to ensure that risk management awareness and practice became embedded across the workforce and potential risks identified before they arose. The other audit had highlighted the absence of an Estates strategy, and this was also being worked on; effective Risk Management practice would mitigate many of the risks flowing from this gap.

Question: *Had risks not been captured by the historic Risk Management practice, or had they not been adequately described and mitigated?* Both. The mismatch between the documented policy and current practice meant that risks might be misclassified, and poorly documented. Getting the whole organisation to think about risk more coherently was essential but work on this was now in hand. Performance Boards provided a mechanism to challenge thinking on risk across the business.

The Audit Committee accepted the Report and agreed that its opinion on the organisation's risk and control framework was that it was Satisfactory.

ITEM 5: DRAFT AUDIT COMMITTEE REPORT TO THE BOARD

Members reviewed this draft report and asked that commentary on the partial assurance gained from internal audit reports and an outline of the actions to address the recommendations be added. Subject to this addition, the draft report was approved for submission to the Board.

Action: Amend the draft Report and present to the Board on 5 December 2016.

Action: invite David Hitchen to make a presentation to the next meeting of the Audit Committee on Risk Management and Control.

ITEM 6: INTERNAL AUDIT PLAN 2016/17

The proposed plan had been developed in partnership with the staff team and incorporated an indicative three-year strategy. Governors discussed the proposed approach and asked:

Question: *Since the proportion of sub-contracting was falling, could this audit be omitted?* No, there was a statutory requirement to undertake such an audit if the volume of sub-contracting was above a set level. However, the number of days allocated to this could be reduced by one. This would have the added benefit of making the plan consistent with the 40 days specified in the contract.

Question: *How would the outcomes from Estates Utilisation report be followed-up and when?* There was no point in carrying out an audit until the strategy had been considered by the Board. This was likely to be in the first quarter of 2017.

Question: *Was the proposed date for the Risk Management audit too early?* Yes, it was sensible to adjust the plan so that David Hitchen could present to the next meeting about the work done to align risk management policy and practice and the audit take place after that, so that there was some fresh evidence to audit.

The Chairman agreed to give Paul Holgate the opportunity to make his own comments, but subject otherwise to the adjustments described above, Members endorsed the proposed Internal Audit Plan for 2016/17.

Action: Invite Paul Holgate to provide urgent feedback on the proposed Internal Audit Plan for 2016/17.

ITEM 7: CORPORATE RISK REGISTER

The Register had been refreshed and the recommendation from the auditors relating to bringing policy and practice together was being addressed. Key risks included the potential financial consequences of future poor performance by Hertvec, the need to implement new IT infrastructure such that the team could limit the time spent firefighting, as well as continuing financial and resource pressure. Members asked:

Question: *How long would it take to reduce the MI risk to an acceptable level?* The first test would be on 6 December; more progress would be made in the New Year. By the next meeting, it would be clear whether the risk profile could be reduced.

ITEM 8: WHISTLEBLOWING REPORT

No instances of Fraud or Whistleblowing had been reported. Members asked:

Question: was the absence of report a matter for concern? Staff culture was felt to be more open and willing to challenge, and the staff survey in Spring 2017 would be refreshed to ask more sophisticated questions on the subject. The Board's potential role in listening to whistleblowers could be promoted and visibility be increased, for example, when leadership posters were refreshed in the New Year.

Action: Raise awareness of the whistleblowing policy and ensure that options open to potential whistleblowers were promoted.

ITEM 9: CLOSED SESSION

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

ITME 10: ANY OTHER BUSINESS

- None.

ITEM 11: DATE OF NEXT MEETING

- Thursday 26 January 2017, starting at 18.00, at NHC Hitchin.

ITEM 12: INFORMATION PAPERS

- Three papers had been circulated for information covering internal audits on Estates Utilisation and Cost management, Governance and Financial Controls. These had been summarised in Item 4.

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Signed as an accurate record of proceedings – Chair Date

AUDIT COMMITTEE ACTION LOG

Meeting	Ref	What	By whom	When	Complete
28/11/16	4.	Complete the outstanding disclosures and recirculate the revised draft to the Audit Committee before distribution to the Board.	Jim Halliday/Paul Tolley	30/11/16	Yes
28/11/16	5.	Amend the draft Report and present to the Board on 5 December 2016.	Robert Dale	30/11/16	Yes
28/11/16	5.	Make a presentation to the next meeting of the Audit Committee on Risk Management and Control.	David Hitchen	26/01/17	
28/11/16	6.	Invite Paul Holgate to provide urgent feedback on the proposed Internal Audit Plan for 2016/17.		16/12/16	
28/11/16	8.	Raise awareness of the whistleblowing policy and ensure that options open to potential whistleblowers were promoted.	David Hitchen		