

AUDIT COMMITTEE

MEETING HELD ON THURSDAY 15 JUNE 2017

Meeting commenced: 18.00

Meeting ended: 20.00

PRESENT

Dr Andrew Gilchrist

Independent Member

Chair

Mr Colin Monk

Independent Member

Ms Rosemary French

Independent Member

Mr Charlie Martin

Support Staff Member

IN ATTENDANCE

Mrs Jayne Dickinson

Principal and Chief Executive

Mrs Jyoti Baker

Vice Principal: Finance and Resources

Mr Kevin Standish

Deputy Principal: Curriculum and Standards

Ms Lorna Raynes

Internal Audit Service RSM Risk Assurance LLP

Mr Subarna Banerjee

External Audit Service: UHY Hacker Young

APOLOGIES FOR ABSENCE

Mr Patrick Waller

External Co-opted Member

CLERK

Mrs Sue Glover

Clerk to the Corporation

AC.15.17 DECLARATION OF INTERESTS

Members and officers were reminded of the need to declare any personal or financial interest in any item to be considered during the meeting.

AC.16.17 APOLOGIES FOR ABSENCE

Apologies for absence were received from

Mr Patrick Waller - personal commitment

The Audit Committee agreed to accept the apologies for absence.

AC.17.17 NOTIFICATION OF ANY OTHER BUSINESS

Members agreed that there was no other business to be considered.

AC.18.17 UNCONFIRMED MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 9 MARCH 2017

The minutes of the meeting were approved and signed as a correct record.

AC.19.17 MATTERS ARISING AND ACTION POINTS FROM THE MINUTES OF THE PREVIOUS MEETING

Members agreed that there were no matters arising from the minutes of the previous meeting.

Members noted that all Action Points had been satisfactorily completed.

AC.20.17 RISK MANAGEMENT: SUMMER TERM 2017

The Vice Principal: Finance and Resources presented a report, which provided an update on

- the College risk review process for the Summer Term 2017
- the monitoring of **Risk S9: Severe business disruption** – ‘minor’ risk, no change
- the monitoring of **Risk O3: Failure to maintain timely and accurate learner data** – ‘fundamental’ risk, no change

Members were advised that the Risk Management Committee had met in May 2017 and provided revisions to the risk register document.

Members considered and discussed each of the risks, noting that

- Risk O3 – the Learner Number audit carried out in May 2017 resulted in 2 medium and 7 low level recommendations. While the issues do not have any funding impact, there are housekeeping points to be resolved, particularly with regard to vacancies in the team, which have been difficult to fill and have had some impact on the outcome of the audit
- Risk S9 remains unchanged as a ‘minor risk’, although various elements have been updated

Members were advised that the issue of difficulty in recruiting and retaining qualified MIS staff has been added to the register under Risk O3 as a new risk.

Members noted the key impact measures arising from the report.

RESOLVED

The Audit Committee endorses and commends to the Corporation Board the updated Risk Register: Summer Term 2017.

AC.21.17 LETTER OF ENGAGEMENT: FINANCIAL STATEMENTS AND REGULARITY AND TEACHERS’ PENSION AUDITOR FOR 2016/2017

The External Auditor presented, for consideration and approval, the Letter of Engagement: Financial Statements and Regularity and Teachers’ Pension Auditor between UHY Hacker Young LLP and East Surrey College and the Chief Executive of Skills Funding.

Members noted that the document was agreed and signed in 2015, is submitted on an annual basis for consideration, and will be carried over from the previous year unless any changes are requested by the College.

Members reviewed the detail of the Letter of Engagement and agreed that there are no changes required for 2016/17.

RESOLVED

The Audit Committee endorses and commends to the Corporation Board for acceptance and approval for 2016/17, without amendment, the Letter of Engagement: Financial Statements and Regularity Auditor between UHY Hacker Young LLP and East Surrey College and the Chief Executive of Skills Funding agreed and signed in 2015.

AC.22.17 FINANCIAL STATEMENTS AUDIT SERVICE PLAN: 2016/2017

The Financial Statements Auditor presented, for consideration and approval, the report on the East Surrey College External Audit Service Plan: year ended 31 July 2017.

Members considered the key issues arising from the report

- Audit independence
- Audit engagement and scope
- The risks of error in the financial statements
- Form and timing of communications
- The preparation of the financial statements
- Audit timetable

Members noted that the document outlines the key audit issues identified for the year ending 31 July 2017 and reflects discussions with the College and knowledge of the FE sector. They noted the following were identified as areas which could give rise to higher risks of error in the financial statements:

- Revenue recognition
- Treatment of pension scheme assets and liabilities
- Going concern
- Student debtors

Members reviewed the detail of the document and, in response to questions, were advised that the external audit team conduct their own tests of internal control with regard to areas subject to internal audit and are not reliant on the outcomes from the audits carried out by the internal auditor.

Members noted the key impact measures arising from the report.

RESOLVED

The Audit Committee approves and commends to the Corporation Board the East Surrey College Audit Service Plan: year ended 31 July 2017

AC.23.17 INTERNAL AUDIT: REVIEW OF OUTSTANDING AUDIT ITEMS

The Vice Principal: Finance and Resources presented, for consideration, a report on outstanding audit items.

Members reviewed each of the three outstanding points, noting that one relates to the preparation of abridged September management accounts and were advised that management accounts are now being issued in a timely manner. The remaining two points relate to MIS issues, which are currently being addressed.

AGREED

The Audit Committee receives and notes the report.

AC.24.17

FINAL INTERNAL AUDIT ASSIGNMENT REPORTS

The Internal Auditor presented, for consideration and approval, the final reports for the following Internal Audit reviews.

IT Disaster Recovery Follow up: 3.16/17

Members were advised that a follow up on progress made to implement the previously agreed management actions as part of the IT Disaster Recovery was undertaken. The report was issued in March 2016 with a 'Reasonable Assurance' opinion and 3 medium and 1 low recommendation raised.

Members noted the conclusion of the report:

'Taking account of the issues identified in the remainder of the report and in line with our definitions set out in Appendix A, in our opinion the College has demonstrated good progress in implementing management actions agreed in the IT Disaster Recovery audit. All 3 of the medium priority actions were validated as implemented. In addition, the 1 low priority recommendation has been superseded.'

Action Tracking: 4.16/17

Members were advised that as part of the approved internal audit plan for 2016/17, a review was undertaken to follow up progress on previously agreed management actions from the following audits:

- Data Self-Assessment Toolkit (DSAT) Review (1.15/16)
- IT Disaster Recover (2.15/16)
- Follow up (3.15/16)
- Key Financial Controls (4.15/16)
- Governance & Risk Management (5.15/16)
- Learner Number Systems (6.15/16)

It was noted that 42 management actions were considered during the review, 2 'high', 25 'medium' and 15 'low'. The focus of the review was to provide assurance that all actions previously made have been adequately implemented.

Members noted the conclusion of the report:

'Taking account of the issues identified in the remainder of the report East Surrey College has demonstrated good progress in implementing agreed management actions. Whilst this is not in line with the definitions set out in Appendix A, we consider that the number and priority of actions fully implemented at this time justifies this conclusion.'

'There are no high or medium recommendations that we consider to be receiving inadequate management attention.'

Members reviewed the new management actions made where appropriate and noted that good progress is being made to address the issues raised.

Learner Number Systems: 5.16/17

Recommendations made across 16-18 learners and adult learners

Two medium
Seven low

Members noted the conclusion of the report

Classroom

In completing the agreed programme of work on East Surrey College's ILR return dated 11 April 2017, we have identified a number of exceptions where East Surrey College has not complied with the SFA Common Funding Rules 2016-17, Adult Education Budget Funding Rules 2016-17 and the EFA Funding Regulations April 2016 ('the Funding Rules'). The exceptions identified have not resulted in any significant errors in the funding being claimed and further details are provided in section 2 of this report.'

Apprenticeships

In completing the agreed programme of work on East Surrey College's ILR return dated 11 April 2017 we have identified a number of exceptions where East Surrey College has not complied with the SFA Common Funding Rules 2016-17 and the Apprenticeship Framework Funding Rules 2016-17 ('the Funding Rules'). The exceptions identified have not resulted in any significant errors in the funding being claimed and further details are provided in section 2 of this report.'

Members reviewed the action plan in place to address the issues raised and noted that good progress is being made.

Risk Management and Governance (6.16/17)

Current assessment

Green – substantial assurance

Members noted the conclusion of the report:

'Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified area(s) are suitably designed, consistently applied and operating effectively.'

Members noted that there were no weaknesses or instances of non-compliance during the audit and therefore no management actions have been raised.

Subcontracting Controls – Final

Members were reminded that at the last meeting held on 9 March 2017, the Subcontracting Controls report had been considered and approved, subject to the final requirements of the audit being confirmed as the SFA's deadline for completion had been extended to 31 May 2017.

It was noted that subsequent to the audit the SFA issued further guidance that extended the submission deadline to 31 May 2017 as well as bringing adult learning loans into scope for the audit. In the light of this, the College was revisited to review the ACM contract, which includes one learner on an adult learning loan as well as the recently introduced Learning Curve who have yet to enrol any learners and so only the set up process and contract was reviewed.

Members noted that there were no further issues raised and the findings of the report remains unchanged:

'The College has a framework of control in place over subcontracting and we have confirmed that this is operating as planned. Whilst this report does contain three management actions, we do not consider them to represent a significant risk to the College's subcontracting arrangements.'

Members noted that the certificate providing external assurance on subcontracting controls to the SFA has been issued by the Internal Auditor.

RESOLVED

The Audit Committee approves Internal Audit Reports

- IT Disaster Recovery Follow up (3.16/17)
- Action Tracking Audit Follow up report (4.16/17)
- Learner Number Systems (5.16/17)
- Risk Management and Governance (6.16/17)
- Subcontracting Controls and Certificate – final

AC.25.17 POST-16 AUDIT CODE OF PRACTICE

The Vice Principal: Finance and Resources presented, for information, the latest Post-16 Audit Code of Practice.

Members reviewed the document noting that it is not substantially changed from the previous versions, but reflects Machinery of Government changes including the transfer of the SFA into the Department for Education and the addition of common findings from recent regularity assurance work is included in the Annex C.

AGREED

The Audit Committee receives and notes the report.

AC.26.17 INTERNAL AUDIT STRATEGY: 2017/18 – 2019/20

The Internal Auditor presented, for consideration and approval, the Internal Audit Strategy: 2017/18 – 2019/20.

Members reviewed the key sections of the Strategy

- Developing the Internal Audit Strategy
- Internal Audit service
- Audit Committee requirements
- Appendix A: Internal Audit Plan 2017/2018
- Appendix B: Internal Audit Strategy 2017/18 – 2019/20
- Appendix C: Internal audit charter
- Appendix D: Client care standards

Members were informed that

- Risk management processes have been evaluated and reliance placed on risk registers to inform the internal audit strategy
- the Strategy links to the strategic aims of the College and attention to particular key audit areas is given to
 - General Data Protection Regulation – the new GDPR comes into force in May 2018 and could cause significant disruption on how organisations store, manage and access personal data
 - Apprenticeship levy
 - Key Financial Controls
 - Personnel and Payroll

The Committee reviewed the specific aspects of the Strategy relative to 2017/2018 and, in response to questions to both the internal and external auditor, members were advised

- There are a number of areas included in the internal audit plan where there is some duplication by the external auditor during the financial statement audit, in particular
 - Personnel and payroll – the external auditor conducts a number of control checks relative to starters/leavers and the process surrounding the approval of the payroll
 - The apprenticeship levy and a number of checks relative to compliance with funding rules and the use of the levy by the College

Members noted that the proposed fee for the internal audit plan for 2017/2018 is **£23,595 + VAT** (2016/17: £17,790 + VAT). However, it was noted that the number of days against each planned audit and the overall total is not shown and requested that it be included.

The Chair of the Audit Committee thanked both the internal and external auditors for presenting their reports and advised that the Committee wished to give further consideration to the Internal Audit Plan for 2017/18.

Lorna Raynes/Subarna Banerjee left the meeting

Members discussed the issues raised relative to the proposed internal audit plan for 2017/18 and agreed that there is a significant amount of cross over between the internal and external audit. In the light of the discussion, the Committee agreed

- It is not necessary for Personnel and Payroll to be included
- Apprenticeship Levy should be deferred to 2018/19 but may at a later date be included during the 2017/18 year if needed
- Risk Management & Governance – The Committee considers it has adequate sight of the risk management and governance processes at Board level and Sub-Committee level. A review should be undertaken at the next level down in order for the Committee to gain assurance on the underlying risk management process that provides input into the corresponding Board and the Sub-Committee processes
- Learner Number System – to remain
- Key Financial Controls – to remain
- Follow up – to remain
- Management – to be reduced accordingly in the light of changes discussed

It was agreed that the Vice Principal: Finance and Resources would inform the internal audit service of the changes to the internal audit plan for 2017/18 and a revised document would be presented to the Board in July for approval.

RESOLVED

The Audit Committee agrees that the internal audit plan for 2017/18 should be revised as discussed and presented to the Corporation Board in July for approval.

AC.27.17 TERMS OF REFERENCE AND STANDING ORDERS OF THE AUDIT COMMITTEE: 2017/2018

The Clerk to the Corporation presented a report, which outlined the need to review, on an annual basis, the Committee's Terms of Reference and Standing Orders.

Members reviewed the document, noting the minor change and agreed that there were no further changes necessary.

Members noted the impact measures arising from the report.

RESOLVED

The Audit Committee approves and commends to the Board the Terms of Reference and Standing Orders of the Audit Committee: 2017/2018.

AC.28.17 ANNUAL SCHEDULE OF BUSINESS OF THE AUDIT COMMITTEE: 2017/2018

The Clerk to the Corporation presented a report, which outlined the need to review, on an annual basis, the Committee's Annual Schedule of Business.

Members reviewed the document, which reflected the business conducted during the current year, and agreed that no changes to the document were required. However, SISSC updates will need to be removed from the agendas if, as expected, SISSC ceases trading by the end of the academic year.

Members noted the impact measures arising from the report.

RESOLVED

The Audit Committee approves and commends to the Board the Annual Schedule of Business of the Audit Committee: 2017/2018.

AC.29.17 SHARED SERVICES IN SUSSEX AND SURREY COLLEGES (SISSC)

The Vice Principal: Finance and Resources gave a verbal update on SISSC.

Members were advised that

- SISSC plans to cease trading on 31 July 2017 are underway
- There have been delays by UNIT 4 in rolling out the replacement systems and costings are still awaited
- A further update will be given to the Finance and Resources Committee next week

AGREED

The Audit Committee notes the report.

AC.30.17 KPI DASHBOARD

Members discussed issues arising from the KPI Dashboard for Finance: April 2017.

Members reviewed the KPI Dashboard for Actual against Budget and Actual against the same period for the previous year for

- Tuition Fees
- Employer Engagement Income
- Additional Contract Income
- Staff FTEs
- Staff costs as a percentage of total income
- Staff costs as a percentage of total income excluding subcontract
- Cash balance at month end
- Supplier invoice payment days

AGREED

The Audit Committee receives and notes the KPI Dashboard for Finance: April 2017.

AC.31.17 ANY OTHER BUSINESS

Members noted that there was no other business.

AC.32.17 DATES OF SCHEDULED MEETINGS: 2017/2018

Thursday 30 November 2017

Thursday 8 March 2018

Thursday 14 June 2018

All meetings commence at 18.00

SIGNED AS A CORRECT RECORD:

A handwritten signature in black ink, appearing to be 'ARZ', written over the text 'SIGNED AS A CORRECT RECORD:'.

DATE: 30 November 2017

