

THE CORPORATION OF EAST SURREY COLLEGE

AUDIT COMMITTEE

MEETING HELD ON THURSDAY 5 DECEMBER 2019 BOARDROOM, REDHILL

Meeting commenced: 18.05

Meeting ended: 20.05

PRESENT

Mr Alex Hayman	Independent Member	Chair
Dr Andrew Gilchrist	Independent Member	
Mr Ganesh Kumar	Independent Member	
Mr Peter Papanastasiou	Independent Member	
Mr Patrick Waller	External Co-opted Member	

APOLOGIES FOR ABSENCE

Ms Rosemary French	Independent Member
Mr Kevin Standish	Principal JRC Quality Lead (College Group)

IN ATTENDANCE

Mr Andrew Baird	Chair of the Corporation
Mrs Jayne Dickinson	Chief Executive (College Group) Principal ESC
Mrs Jyoti Baker	Chief Operating Officer
Ms Katharine Patel	External Audit Service: Buzzacott LLP

CLERK TO THE COMMITTEE

Mrs Sue Glover	Director of Governance
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AC.33.19 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.34.19 Apologies for absence

Apologies for absence were received from

Rosemary French	- personal commitments
Kevin Standish	- business commitments

Agreed

The Audit Committee agreed to receive the apologies for absence.

AC.35.19 Appointment of Chair of the Committee

The Director of Governance advised the Committee that the current Chair of the Committee, Dr Andrew Gilchrist, will be finishing his third and final term of office in April 2020. Dr Gilchrist has advised that in order to help plan for a new Chair of the Committee he would like to step down as Chair at this meeting, but continue to serve on the Committee until his retirement to offer his support and mentoring of the new incumbent. Therefore, a new Chair is sought at this meeting.

Members were informed that, in accordance with the Terms of Reference and Standing Orders of the Committee, the Chair shall be appointed from among the independent members of the Committee. Members were informed that, following the invitation to members to submit nominations for the Chair, Mr Alex Hayman had been severally nominated for the position.

Resolved

The Audit Committee recommends to the Corporation Board that Mr Alex Hayman is appointed the Chair of the Committee.

AC.36.19 Notification of any other business

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

AC.37.19 Unconfirmed minutes of the meeting of the Audit Committee held on 13 June 2019

The minutes of the meeting were approved and signed as a correct record, subject to minor amendment as discussed.

AC.38.19 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 meeting.

Members noted that all Action Points arising from the meeting had been addressed to the satisfaction of the Committee.

AC.39.19 Internal Audit

The Chief Operating Officer presented for consideration the following relating to the College's internal audit provision:

- Audit tracker to review outstanding audit items
- Closing internal audit reports for 2018/19 for
 - Compliance review of Subcontractors
 - Annual Internal Audit report
- Update on the Bursary Audit
- Proposals for internal audit arrangements for 2019/20 to recommend to the Corporation Board

AC.40.19 Review of outstanding audit items

The Committee received for information and consideration the audit tracker, which reported on outstanding audit items.

Members reviewed the detail of the report, noting the progress of the recommendations following internal audits during 2018/19. All recommendations have been completed with the exception of two which are in progress and deadlines revised.

In discussion, members asked how the College ensures that policies are embedded across the organisation and, in response, were advised

- policies are cascaded by the Heads of departments, who are members of the College management team to their staff
- JRC policies are being harmonised with ESC
- it is usual for all policies to be translated into procedures and accountabilities for staff to follow

AC.41.19 Final Internal Audit Report – Compliance Review of Subcontractors

The Committee received the final internal audit report for the Compliance Review of Subcontractors, which had been conducted by TIAA in August 2019.

Members were advised that

- the review was to provide assurance that there are adequate subcontracting controls for ensuring that appropriate measures are in place over the appointment, monitoring and funding of sub-contractors
- the testing of controls has been carried out in line with the guidance issued by the Education Skills Funding Agency

Members noted the conclusion of the report with 4 routine action points raised.

'The Colleges' controls and processes are generally in line with the Education Skills Funding Agency (ESFA) requirements for subcontracting. However, there is need to further strengthen the controls at John Ruskin College (JRC). TIAA were informed that all subcontracting of Apprenticeships and subcontractors who have not delivered to the ESC quality standards for JRC will be stopped by the end of 2018/19. The key highlights from the review are summarised below:

- *There are controls over selection and procurement of subcontractors. However, there is need to align the processes at JRC with those of East Surrey College (ESC).*
- *There are policies and relevant documents on subcontracting at both Colleges. However, there is the need to harmonise the policies and procedural documents at both Colleges to ensure they are consistent and are kept up to date.*
- *Relevant documents and information on subcontracting are published on ESC's website but this was not the case with JRC*
- *The Colleges' complied with the requirements regarding the declaration of subcontractors' payments to the ESFA. The declarations were made for both Colleges in May 2019. TIAA were informed that the final declarations would be made end of July 2019*
- *The arrangements for monitoring the subcontracting provision are formalised and have been communicated to the subcontractors. However, they were not being fully complied with at JRC*
- *Management confirmed that there were no second level subcontracting*

The Committee was advised that all the recommendations have been recorded on the audit tracker, discussed under the previous item.

AC.42.19 Annual Internal Audit Report for 2018/19

The Committee received the Annual Internal Audit Report for 2018/19 which had been prepared by TIAA.

Members reviewed the details of the report, noting that it was the opinion of the Head of Internal Audit for the 12 months ended 31 July 2019 that

'TIAA is satisfied that, for the areas reviewed during the year, East Surrey College has reasonable and effective risk management, control and governance processes in place'

AC.43.19 Bursary Funding Audit

The Chief Operating Officer advised that the College was informed that the ESFA wished to conduct a Bursary Audit on the 16-18 Bursary Fund on 11 November 2019. There has been no report received from the ESFA as yet following the audit. The Committee was advised that the audit raised the following issues:

- ESC – two issues have been raised
 - one student in the sample did not have the universal credit form on file
 - payment of trips is not permitted from the Vulnerable Bursary fund and two students from the sample had educational trips paid for from this fund
- JRC – a more significant issue was raised as there has been a misinterpretation of the rules of eligibility of the Vulnerable Bursary

Members were advised that the issues raised in the ESC audit were not significant as they are within the level of tolerance allowed by the ESFA. A full review of Bursaries awarded has been undertaken and the current position is that other than the matters raised above ESC has complied with the funding rules. There is the potential for the trip fees to be repaid by the College to the ESFA, of circa £5k.

The issues raised in the JRC audit have given cause for concern. These are not within the 5% tolerance allowed by the ESFA. The reconciliation has indicated that the bursary rules have been misinterpreted. JRC have paid £187k in bursaries in the year ended 31 July 2019. The ESFA wish to conduct a 100% audit of bursary payments. A significant amount of those funds may have been paid incorrectly. The external auditor has been informed as this will have an impact on the financial results for the College.

In discussion with the External Auditor present, consideration was given to the fact that the eligibility of bursary decisions were made prior to substantive merger discussions and the agreed dissolution of JRC. For this reason, the impact could be reflected in the JRC financial statements to 31 January 2019 and included in the ESC accounts under the Fair Value adjustment.

The External Auditor agreed with the above position and the JRC financial statements would be adjusted. The Chief Operating Officer would inform the external auditor for the JRC financial statements and both sets of the financial statements would be updated accordingly and presented to the Corporation Board for approval on 12 December 2019.

AC.44.19 Proposals for internal audit arrangements for 2019/20

The Committee was advised that as agreed by the Board, the relationship with the previous internal auditors was drawn to a close by mutual consent. The College has not yet appointed replacement internal auditors.

The proposal for 2019/20 is to appoint internal auditors in the Spring Term to carry out audits in the Summer Term. However, in view of the systems rebuild that is taking place, the number of internal audits would be restricted to MIS and Subcontractors. Assurance for Risk and Governance would be taken from the Regularity return that is signed off and the work undertaken by the External Auditors on their testing on Financial Statements. The College would return to a full Internal Audit Service in 2020/21, with some specialist audits undertaken to include benchmarking the College cost base, health and safety compliance.

Members discussed the proposals and agreed this was a sensible approach to the internal audit provision.

Resolved

The Audit Committee

- receives the audit tracker, noting the progress made against outstanding issues
- receives and accepts the final internal audit report for the Compliance Review of Subcontractors
- receives and approves the Annual Internal Audit Report: Year Ended 31 July 2018 and commends the report to the Corporation Board for endorsement and approval
- commends the proposals for the College's internal audit provision in 2019/20 and 2020/21

AC.45.19 External Audit

Post-Audit Management Report for ESC for the year ended 31 July

The External Auditor presented its Post-Audit Management Report to the Audit Committee: Year Ended 31 July 2019.

The Committee considered the detail of the Report, in particular

- Executive summary
- Financial Statements opinion
- Regularity Assurance conclusion
- Financial performance and going concern
- Key audit findings
- Key audit risks and outcomes
- Comparison of financial ratios
- Sector developments

Members were advised

- At the current date the external auditor expects to be in a position to issue an unqualified audit report on the financial statements of the College
- the final ESFA funding reconciliation statement for 2018/19 has been received and reviewed to ensure funding income from the ESFA has been correctly accounted for within the 2018/19 statements
- no significant issues arose during the substantive analytical review and sample based checks on work on non-ESFA income

In discussion, members were advised that good controls continue to be in place at the College and the external auditor took the opportunity to thank the finance staff for their assistance during the audit. The External Auditor advised that the report would be updated in the light of the discussions that had taken place under the previous item relating to JRC and the Bursary Funding Audit. The Committee agreed to accept the report, subject to amendment, which will be presented to the Corporation Board on 12 December 2019.

AC.46.19 Annual Report and Financial Statements for East Surrey College 2018/19

The Chief Operating Officer presented the draft Annual Report and Financial Statements for the Year Ended 31 July 2019.

The attention of members was drawn to

- Report of the Governing Body
- Statement of Corporate Governance and Internal Control
- Governing Body's Statement on the College's Regularity, Propriety and Compliance with Funding Body Terms and Conditions of Funding
- Statement of Responsibilities of the Members of the Corporation
- Independent Auditor's Report to the Corporation of East Surrey College
- Reporting Accountant's Assurance Report on Regularity

Members reviewed each section, suggesting some changes to be made to the section relating to the merger with JRC and other minor wording amendments so that these can be incorporated into the final version to be presented to the Board on 12 December 2019.

Members noted that the Finance and Resources Committee had given initial consideration to:

- Statement of Comprehensive Income
- Statement of Changes in Reserves
- Balance Sheet
- Statement of Cash Flow
- Notes to the Financial Statements

Members were advised that

- The College generated a deficit on continuing operations of (£399k), which is in line with the management accounts as at 31 July 2019
- The College is expected to receive a clear financial statements and regularity audit report
- The Reporting Accountant is Buzzacott LLP

Members noted that it was the opinion of the Financial Statements Auditor that the financial statements

- *Give a true and fair view of the state of the College's affairs as at 31 July 2019 and of its deficit of income over expenditure for the year ended; and;*
- *Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;*

Members also noted the conclusion given by the Regularity Auditor that *'in the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.'*

AC.47.19 Financial Statements for John Ruskin College to 31 January 2019

The Committee received the Financial Statements for John Ruskin College to 31 January 2019, which have been fully audited and agreed by the JRC external auditors, Alliot's.

It was agreed that these would be amended following the previous discussions at this meeting.

AC.48.19 Regularity Audit Self-Assessment Questionnaire

The Chief Operating Officer presented, for consideration and approval, the College's Regularity Audit Self-Assessment.

Members noted that

- The Self-Assessment confirms the actions the College undertakes regularly to verify that its expenditure is appropriate and in accordance with relevant rules and guidance
- The Self-Assessment has been reviewed by the external auditor as part of their year-end audit function
- The Chief Executive/Principal and the Chair of Governors are required to sign the Regularity Audit Self-Assessment for 2018/19 on behalf of the College

AC.49.19 Letter of Representation in respect of the Financial Statements for the year ended 31 July 2018

The External Auditor presented the Letter of Representation in respect of the Financial Statements for the year ended 31 July 2019.

Members noted the detail of the Letter of Representation which will be presented to the Corporation Board on 12 December 2019.

Resolved

The Audit Committee endorses and commends to the Corporation Board for acceptance and approval

- the Annual Report and Financial Statements for East Surrey College for the year ended 31 July 2019, subject to amendment as discussed
- the Financial Statements for John Ruskin College to 31 January 2019, subject to amendment as discussed
- Post-audit management report for the year ended 31 July 2019, subject to amendment as discussed
- the Regularity Audit Self-Assessment Questionnaire for the year ended 31 July 2019 to the Corporation Board for acceptance and approval
- the Letter of Representation in respect of the Financial Statements for the year ended 31 July 2019

AC.50.19 Annual Report of the Audit Committee: 2018/19

The Director of Governance presented the Annual Report of the Audit Committee on the work of the Audit Committee during 2018/19.

Members were advised that

- the Audit Committee is required to provide an annual report to the Board and to the Principal and Chief Executive, which outlines the work undertaken by the Committee, and how the Committee has fulfilled its responsibilities as set out in its Terms of Reference and Standing Orders
- the Annual Report of the Audit Committee is required to be submitted to the funding agency together with the Annual Report and Financial Statements

Members considered the details of the Report, with particular reference to

- Clause 7 – Internal Audit
- Clause 8 – Financial Statements Audit
- Clause 9 – Regularity Audit
- Clause 10 – Risk Management
- Clause 13 – Assessment of the Audit Committee’s own effectiveness
- Clause 14 – Conclusion

Members discussed the detail of the report, agreeing that some of the text relating to the internal audit provision should be amended. The Director of Governance would circulate an amended version to the Committee outside of the meeting to agree so that the report can be presented to the Board at the meeting scheduled for 12 December 2019.

The Committee noted the key impact measures of the report.

Resolved

The Audit Committee approves the Annual Report of the Audit Committee to the Corporation Board and to the Principal and Chief Executive, and commends the report to the Board for acceptance and approval, subject to amendment as discussed.

Andrew Baird left the meeting

AC.51.19

Annual Risk Management Report: 2018/19

The Chief Operating Officer presented, for consideration and approval, the Annual Risk Management Report: 2018/19.

The Committee was advised of its responsibility

- to oversee the College’s risk management process in accordance with its Terms of Reference
- in accordance with the Post-16 Audit Code of Practice, to provide, in its annual report, an opinion on the adequacy and effectiveness of the College’s risk management

Members considered the detail of the Report, noting

- The work of the College’s Risk Management Committee
- There have been no changes in key personnel or in the Governance and Risk Management process at the College in 2018/19
- The College’s previous two years’ Governance and Risk Management audits have resulted in a ‘substantial assurance’
- Strategic Risks
- Corporation responsibilities for risk
- Management of risks
- Conclusion

The Committee noted the key impact measures of the report.

Resolved

The Audit Committee endorses and commends the Annual Risk Management Report: 2018/19 to the Corporation Board for acceptance and approval.

AC.52.19 Risk Management: Autumn Term 2019

The Chief Operating Officer presented, for consideration and approval, a report which provided an update on the assessments and actions for the risks assigned to the Committee.

Members were advised that, following the discussions at the Governors' strategy day meeting in June, the new format risk register has been prepared. The strategic risks assigned to the Committee remain as two as follows:

- AC1 – Failure of the College MIS systems to capture and maintain quality of data and reporting resulting in incorrect information and thus decisions – 'fundamental' risk
- AC2 – Severe business disruption – 'fundamental' risk

Members were advised that

- The key contributory factors have been considered from the 2018/19 register as well as new ones added
- Those risks still relevant have been carried forward and included in the 2019/20 register

Members considered and discussed the detail of the report and, in response to questions, were advised that

- A number of measures are in place to mitigate the risk of cyber-attacks in the future
- Security systems have been significantly strengthened with the Carbon Black license from Grant Thornton who also provide a managed a 24-hour service end point protection service for the College
- A penetration audit will be conducted by an external organisation in the new year and the outcome presented to the committee

Members noted the key impact measures of the report.

Resolved

The Audit Committee endorses and commends to the Corporation Board the Risk Register: Autumn Term 2019 relative to the risks assigned to the Committee

Peter Papanastasiou left the meeting

AC.53.19 Value for Money

The Chief Operating Officer presented, for information and consideration, a report on Value for Money.

Members were reminded that one of the Strategic Aims of the College is '*to generate strong finances and robust delivery structures that enable future investment and sustainability*' and to underpin this aim, the College continues to ensure Value for Money in the use of public funds.

Members reviewed the following key areas identified in the report as being of particular importance in assessing value for money:

- Staff Utilisation
- Class Sizes
- Large Contract Procurement

Members discussed the key areas of the report, noting

- Staff utilisation is regularly reviewed by the Executive and the Director of HR to ensure that established teaching staff operate close to or at 100% of their contacted hours

- Some class sizes were lower than target and were permitted to run where the strategic rationale was secure and where possible adjustments were made allowing groups to be combined for elements of the course, thus reducing staffing hours. Where class size is above target but lower than required to split the group, the Executive agree a small number of additional hours to ensure a positive student experience
- All quotations and tenders for large contract procurement continue to be obtained in accordance with the Financial Regulations

Members noted the impact measures arising from the report.

Agreed

The Audit Committee receives and notes the report.

AC.54.19

Code of Good Governance for English Colleges

The Director of Governance presented, for information, a report outlining the College's Audit Review of Compliance with the Code of Governance for English Colleges.

The Committee was reminded that

- The Code of Good Governance for English Colleges was adopted by the College at the meeting of the Corporation Board held on 9 July 2015 and implemented with effect from 1 August 2015
- This Code replaces the previous English College's Foundation Code of Governance

Members reviewed the document and noted that the Search and Governance Committee have approved this for endorsement by the Corporation Board at the meeting to be held on 12 December 2019. The Committee agreed that there was nothing further to be added to the audit of compliance.

The Committee noted the key impact measures arising from the report.

AGREED

The Audit Committee receives and notes the report.

AC.55.19

Annual Review of the Business of the Audit Committee

The Director of Governance presented a report, which provides a review of the Action Points arising from the meetings of the Committee during 2018/19.

Members were reminded that, following each meeting of the Committee, a list of Action Points arising from the meeting is drawn-up and, at the next meeting, the list is reviewed in order to ensure that the appropriate action has been, or is being, taken.

The Committee was advised that the purpose of the report was to ensure that appropriate progress has been made against each of the identified actions required by the Committee.

Members agreed that all Action Points had been fully addressed to the satisfaction of the Committee.

The Committee noted the key impact measures arising from the report, in particular the Strategic and Risk implications.

Agreed

The Audit Committee receives and notes the report.

AC.56.19 KPI DASHBOARD

The Committee received the KPI Dashboard for Finance: October 2019, period 3.

Members reviewed the KPI Dashboards reflecting the 31 October management accounts:

- 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
- 12 month rolling cashflow forecast

Agreed

The Audit Committee receives and notes the ESC KPI Dashboard for Finance: October 2019, period 3.

AC.57.19 ANY OTHER BUSINESS

There was no other business.

AC.58.19 DATES OF SCHEDULED MEETINGS: 2019/20

Thursday 12 March 2020

Thursday 11 June 2020

All meetings commence at 18.00

At the conclusion of the Part 1 meeting, the Committee moved into a meeting restricted, in accordance with the Instrument and Articles of Government and with Section 22 of the Freedom of Information Act 2000, to the members of the Committee, the External Co-opted Member of the Audit Committee and to the senior postholders.

SIGNED AS A CORRECT RECORD:

DATE: 12 March 2020



