



## AUDIT COMMITTEE

WEDNESDAY 10 FEBRUARY 2021

**Report:** Minutes of the meeting held on Wednesday 21 October 2020  
**Author:** Clerk  
**Action:** Approve  
**Status:** Open

**Present:** Chris Macklin (Chair)  
Aneela Ali  
Neil Weddle (co-optee)

**In attendance:** Andy Cole (Interim Principal / CEO)  
Keith Oxspring (Interim Finance Director)  
Ivan Jepson (Director of Business Development)  
David Keetley (Financial Controller)  
Steve Campion (Financial Consultant)  
Lucy Robson (from 5pm) (RSM – External Audit)  
Emma Moody (WBD, Clerk)  
Suzanne Clark (Minutes)

### **A/730 Welcome / Apologies / Conflicts of Interest**

The Chair welcomed everyone to the meeting. Apologies were received from Karen Finlayson (PWC) and Claire McHaffie (PWC). They advised that they were not able to attend as they have not yet been engaged formally with the College as internal auditors.

Lucy Robson from RSM would join the meeting at 5pm for 30 minutes.

Members were invited to declare any interests on any item on the Agenda. No interests were declared at this stage in the meeting; however, members noted that should the direction of debate on any item result in a potential conflict of interest, this should be indicated in the meeting.

The Chair advised that there would be some changes to the order of the agenda to accommodate the attendance of the external auditor.

### **A/731 Minutes of the last meeting dated 3 September 2020 (reviewed when the external auditor joined at 5pm)**

The minutes of the Audit Committee meeting held on 3 September 2020 were agreed as a correct record save for the following amendments:

A/724 – the external auditor advised that the first confidential section should state that she had recommended that the College may wish to seek legal advice rather than make a report to the relevant professional body.

The external auditor highlighted that during presentation of the external annual audit findings there was a lot of content shared that does not appear to be documented. The Clerk advised that if the information shared as part of the presentation of the report is included in the report that was presented to the members this would not be recorded verbatim (to avoid unnecessary duplication). If there were additional points, questions asked or any debate then the approach would be to record this in the minutes. The external auditor was concerned that should the minutes be challenged in the future there may not be sufficient evidence to support the level of detail shared. The Clerk agreed to review the report, working with the external auditor, and add an agreed statement to the minutes to reflect the overview given. The Chair asked the external auditor to provide her notes so as to support any amendment to the minutes.

*Action: Clerk to work with the external auditor to amend the minutes and to add a statement reflecting the level of detail shared in respect of the external annual audit findings (A/724).*

## **A/732 Matters Arising**

The Clerk confirmed that the Finance and General Purposes Committee terms of reference were shared with PWC, A/721.

The Clerk confirmed that she has reported to the external auditor on the adjustment of bonus repayments, A/724.

The Chair asked whether there was a known end point for sign-off of the 2018/19 financial statements. The Interim Finance Director advised that there is currently regular dialogue between himself and the external auditor. A copy of the updated financial statements has been shared with the external auditor who has undertaken a review. These have now been passed to RSM's technical section for review to ensure they are technically correct. It has been indicated that a final version will be sent to the Interim Finance Director later in the week with recommended changes. Depending on the level of changes required the Interim Finance Director indicated that he would envisage accounts being concluded by mid-November but he stressed that this was based on an informal discussion with the external auditor. The Chair felt that this was excellent news that would be very much welcomed by all adding that there is a Board meeting scheduled to take place on 9 December 2020 and he felt that this should be the target for sign-off. The Chair will revisit this when the external auditor joins the meeting. The Interim Finance Director added that once the statements are complete some work will be required in relation to PR as there is likely to be some public interest once they are published.

Following the external auditor joining the meeting, the Chair updated her on the previous discussion advising of the Board meeting in December where it would be welcomed if the final version of the 2018/19 financial statements can be signed off. The external auditor confirmed that following the previous Audit Committee meeting the Interim Finance Director has revised the statements working in tandem with the 2019/20 accounts. There have been some relatively small adjustments processed through the accounts. The external auditor had identified 7 or 8 significant adjustments totalling just under £1m. The Interim Finance Director and external auditor have been checking these adjustments ensuring that audit evidence is available. The statements have been tidied up and were received by RSM in the previous week. Review of the statements is complete and it was confirmed that they have been shared with RSM's technical team. The external auditor was looking to refer these back to the Interim Finance Director either later in the week or early the following week. RSM had been awaiting the outcome of the SPA process to confirm going concern. This work now needs to be updated. The Interim Finance Director is aware of what is required by the external auditor and it was confirmed that this is information that the College will already be producing including the September management accounts, an update on the recovery plan and a cashflow forecast. The external auditor confirmed that she would also like to work to a target date of 9 December 2020 for sign-off. The Interim Finance Director added that the September management accounts have been concluded and include a 12-month cashflow forecast. There is some work to complete on the accounts for subsidiaries as these are very much interlinked and reliant on the College position. The Chair advised that the adjustments of just under £1m

highlighted by the external auditor have been previously brought to the attention of governors.

### **A/733 Receipt of terms of reference**

The Clerk presented the committee terms of reference.

The Clerk confirmed that the terms of reference were adopted by the Board and committee membership was approved by the Board on 2 October 2020.

Membership of the Audit Committee has been refreshed and the terms of reference fine-tuned. The Clerk referenced the intention for the current Chair of Audit Committee to step-down as a governor in the near future and work would be undertaken to recruit a replacement. The Clerk reported that there had been an initial meeting with Perridot, the company who will be supporting the recruitment of additional governors, and they will be looking at the skill set of the Board. They will be looking for audit expertise, and finance in particular. On completion of this work, recommendation for appointments will be made to the Board. A member indicated that she would welcome someone with FE experience to address any gaps and complement existing skills.

The Clerk would develop a cycle of business for the committee and indicated that she would work with the Interim Finance Director and Interim Principal / CEO to agree this. The Clerk reported that other committees will be developing KPIs that can then be reported up to the Board. She asked whether it was appropriate for high-level KPIs to be developed for the Audit Committee and asked members for their view on this.

The Clerk advised that the Audit Committee had not previously had KPIs. The Clerk asked the Interim Principal / CEO, Interim Finance Director and Financial Consultant whether high-level KPIs were appropriate for an Audit Committee. The Interim Principal / CEO advised that he had no experience of KPIs being reported against at audit committees. Work of the committee tends to be predetermined by the audit process. The Financial Consultant advised that he is familiar from work with other with other colleges of KPIs being developed in quality and finance. In respect of audit, he has previous experience of work undertaken focusing on areas of particular risk where individuals would be invited to present to the committee, with this approach KPIs could be set against the individual area. He felt that standalone KPIs for an audit committee would be unusual. A member commented that it would be useful to have set milestones or a timeline in terms of what needs to be completed to ensure that there is visibility from the outset. There is a need to ensure that the right, appropriate things are included on the risk register and that it is reviewed regularly. The Chair confirmed, that from his experience, it would be unusual to have KPIs at an audit committee due to the regularity process. Committee's would normally have a work plan so it is known what to expect at each meeting as most work is cyclical. The Chair agreed to share an example workplan. The Interim Finance Director asked whether there was previously a plan of business. The Clerk indicated that previous business had been dictated by the audit cycle and she is keen to have an annual cycle of business which is formalised to ensure accountability. The Financial Consultant added that he would look to share an example of an FE specific cycle of business. It was noted that quorum for meetings is 3 members and with this in mind the Clerk would welcome an additional member on the Audit Committee.

*Action: Clerk to work with Interim Finance Director and Interim Principal / CEO to agree annual cycle of business.*

*Action: Chair to share an example of an annual work plan.*

*Action: Financial Consultant to share an example of an FE specific annual cycle of business.*

***The terms of reference were noted.***

### **A/734 Planning for External Audit 2020/21**

The Interim Finance Director gave a verbal update.

The Interim Finance Director reported that RSM have been the College's external auditors for 2018/19 and the College has continued with their services for the 2019/20 financial statements. Both external and internal auditors had worked with the College for some time.

The College is now in a position where there is the opportunity to tender and the Interim Finance Director expressed a preference to go out to tender for *both* internal and external audit services, for the year after next.

The Committee was asked to approve this approach. In response to a question from a member, the Interim Finance Director advised that the budget for internal audit is £35k. The Clerk indicated that the cost of audit work would likely increase due to the risk associated with the College's current position.

The Clerk indicated that it would be preferable to have the new Chair of Audit Committee involved in the interview panel for both internal and external auditors. The Interim Finance Director reported that he has experience of tendering for audit services and suggested that the College use the services of Tenet. They are reputable and would make procurement arrangements on the College's behalf. The Financial Controller indicated that the previous appointments were made prior to the College having access to Tenet's services. Tenet would look to suggest companies from a framework. In response to a member, the Chair advised that both internal and external auditors were on extensions of the original agreements and he thought this had been the case for at least three years. A member advised that they had previously been involved in a tendering process where Tenet were used. Tenet provided the specification and managed the selection process ensuring all necessary evidence was in place supporting the qualifications and experience of the firms on the framework. The Interim Finance Director advised that Tenet would work with the College to build the specifications.

The Chair felt it would be interesting to see which companies would submit a tender as many of the known auditors are moving away from this type of work. The Financial Consultant added that he would be supportive of using Tenet and he also had an awareness that some big providers are steering away from audit. It was noted that the cost of audit is increasing significantly. It was suggested that the Committee consider the timing of the tendering process and potentially look to stagger this although it was recognised that this may need to be a future consideration and not appropriate currently. The Chair felt it was imperative that his successor be included on the panel to support development of the required relationship. The Chair advised that an update will be given to the Governance Committee to commence work on the appointment of members. The Audit Committee gave approval to commencement of the tendering process with Tenet. The Clerk indicated that it would be prudent to update the Committee by email on progress. The panel can endorse the appointment but it was suggested that the Board be asked to approve the panel and the shortlist, and the ultimate appointments of external and internal auditor. The Clerk agreed that she would work with the Interim Principal / CEO, Interim Finance Director and Financial Consultant to agree the process and the share with members. The Chair asked whether the ESFA needed to be aware of this intention. The Clerk advised that information would be shared with the ESFA as part of regular communications through Board observation and ESFA case conference. In response to a question from the Clerk, the Chair confirmed, from his experience, that firms would often bid for both internal and external options.

*Action: Clerk to work with the Interim Principal / CEO, Interim Finance Director and Financial Consultant to agree the tendering process and progress to be reported back to the Committee.*

***The report was noted and members approved the request to go out to tender for both internal and external auditors.***

#### **A/735 Internal Audit Plan 2020/21**

The plan was presented by the Interim Finance Director.

A member questioned whether the internal audit budget of £35k was the right benchmark. The Interim Finance Director responded confirming that £35k would generally be seen to be sufficient for a College of this size and complexity. The Financial Consultant added that he felt that £35k seemed to be about right recognising that there was no requirement for internal audit although most colleges continue to engage with it. Many colleges have reduced the number of days for internal audit to between 30 and 40 which feels to be about right. He indicated that he had concerns about the proposal and value for money. A member commented that they would like full assurance but recognised the need to be realistic and to look at what other audit firms could offer. The member asked whether PWC would open to renegotiating. The Clerk indicated that currently the College could be seen as high risk and there is the possibility that PWC may not want to work with the College in the future.

The Interim Finance Director indicated that that if the process is started for internal auditors immediately it may be possible to get an arrangement in place for January 2021 which would give seven months to undertake the necessary work. The Interim Finance Director stressed the need for assurance indicating that he would want to be secure and whilst the College could be criticised for the spend he would prefer this over being criticised for a lack of quality processes. It was confirmed that neither option includes the ISAE 3000 Subcontracting Assurance work and the likely additional cost for this would be between £8k and £10k. Members felt it was unfortunate that cost of audit had increased so significantly and yet both audit firms had been with the College during the years when there had clearly been errors in financial reporting.

Nevertheless, The Committee agreed that the College progress with option A proposed by PWC, there was a need for FULL assurance, and with view to tendering for 2021/22.

***The plan was approved.***

*Lucy Robson joined the meeting at 5.00pm*

#### **A/736 Financial Statement Audit 2019/20**

The report was presented by Lucy Robson (RSM) as External Auditor.

A progress update was given on the 2020 audit. Audit planning is complete and the audit team are in the early stages of the main work. Supporting figures have been received in draft form but the full financial statements are yet to be received. The audit plan is the same as previously circulated with the exception of the going concern section which has been updated due to COVID and the level of risk associated with the College. The external auditor highlighted that the ESFA deadline for the 2019/20 financial statements has been moved back to the end of January due to COVID. It would be reasonable to assume that sign-off of the 2020 accounts will take advantage of this extra month. The Chair indicated that going concern and the consequences of COVID are emerging in other sectors and it is felt to be common for public sector bodies to be carrying out this additional work. The Chair asked whether there were any potential issues the Committee should be aware of. The external auditor confirmed that it is very early days. She is expecting information to flow relatively easily electronically to support remote working. The auditor is reassured by the extension of the deadline and the work undertaken to date with the College management team. A member asked how many extra days would be required in relation to the COVID work. The external auditor responded advising that RSM have produced an overall budget including the additional work re going concern. RSM do not quote for days, only an overall opinion. There are a substantial number of hours required on going concern from the external auditor and RSM's technical partner. The Interim Finance Director added that work to date on the 2020 financial statements has been focused on the numbers rather than the statements themselves. This will need to be transferred into the financial statements format and there is still a lot of work to do. The Chair commented that governors were understanding of this position. The Clerk suggested that work on the governance oversight section of the statements could commence and this should look to continue the journey from 2018/19 to give readers a contextual position. Governors should have the opportunity to input into this. The Clerk agreed to follow this up offline with the Interim Finance Director. The Interim Finance Director advised that the statements are currently very much a moving target as there is a

further IBR to consider and the potential for property sales. The situation is currently very fluid. Work will be shared once the format is in place. The external auditor encouraged using the 2020 Casterbridge template. It was confirmed that Casterbridge College is a fictional College used by the ESFA in the template they update each year. The Financial Controller advised that some data has been entered into the template and agreed to share this with the Clerk following the meeting. The Chair agreed that the table of contents and governor attendance information can be prepared ready to be added when appropriate.

*Action: Clerk to work with the Interim Finance Director on the governance narrative section of the statements.*

*Action: Financial Controller to share the 2019/20 Casterbridge template with the Clerk.*

***The report was noted.***

*Lucy Robson left the meeting at 5.30pm.*

#### **A/737 Internal Audit Actions 2019/20**

The report was presented by the Interim Finance Director and the Director of Business Development with input from the Financial Controller.

The Chair commented that good progress was being made in relation to key financial controls. He indicated that he was comfortable with the revised dates on the action plan. A member asked how reports can be streamlined in the future, ensuring that procedures are embedded, to assure the Committee that processes are working. The Interim Finance Director responded advising that there is an internal financial controls audit on an annual basis which would flag any areas of concern.

The Chair commented that it was good to see progress made in relation to the College's subcontracting audit and he found it pleasing to hear that target dates have already been met. He was hopeful that this would be recognised at the next audit as this is an annual review.

***The report was noted.***

#### **A/738 Risk Management and Risk Register**

The report was presented by Steve Campion, Financial Consultant.

The Chair commented that the College's risk register has been evolving and he felt that the current version presented is more succinct. He very much appreciated the inclusion of the 'change since last review' column so the Committee could monitor direction of travel. The Chair asked how the register can be embedded within the organisation and how a consistent approach to risk can be established. Can assurance be given that people are looking at and assessing risk on a regular basis. The Interim Principal / CEO advised that this is most definitely the culture within the Executive Team. The register needs to be in a usable form that can be engaged with. He recognised the need to embed review of the register into regular Executive Team meetings and into the business cycle of Executive Team members. The register should be part of the performance review process and each member should have their own business / operating plan for their individual area of responsibility. The register was felt to be a great starting point and it is vital to ensure that it is accessible. The Clerk, considering the risk owner and the Board and committee responsibility, asked how the committee or the Board can own, monitor and be satisfied that mitigating actions are robust enough. There is a need to ensure, from a governance perspective, that the risks are fully understood and tested by the relevant committee and that this is done in an effective way. The Interim Finance Director suggested that this be broken down with the subset relating to the committee. The Financial Consultant suggested that the register be presented at each committee meeting with a review at the end of the meeting to ensure all risks are captured. The Clerk stressed the need to ensure that the mitigating actions in the register are actually *effective* at mitigating risk. The Interim Finance Director commented that it is very easy to record the information but there needs to be assurance that people will take the necessary actions to reduce the risk.

*Aneela Ali left the meeting at 6.00pm.*

A member expressed some confusion around the recording of residual risk. Considering the regularity of Audit Committee meetings, which tend to be quarterly or termly, he asked when the last review took place and how deeply were some of the high risks reviewed. He gave very positive feedback on the format of the register. The Financial Consultant explained that the arrows on the register reflect any change since the last review. The process started in June and the register was updated in September so the arrows reflect any change since June. He felt that the register should be on a cycle where it is reviewed by the Executive Team for at least 20 minutes at an ET meeting. There needs to be additional maturity to embed this further across the organisation.

The Interim Principal / CEO felt it should be fairly straight forward to insert the date of the previous review which would give better clarity. A member commented that the Committee need reassurance that all risks are given a review date. The Financial Consultant suggested that if further assurance is required in any area the Committee could look to undertake deep dive activity. The Clerk indicated that the Audit Committee's remit included the assessment of risk and mitigations, and they assure the Board in relation to the same. She asked which member of the Executive Team had ownership of the register. The Financial Consultant responded that, in his experience, it would normally be the Finance Director. He had drafted the register but stressed that it should not be something to be seen to be owned only by the Finance Director and he felt that the whole of the Executive Team should have a shared responsibility. The Clerk indicated that she understood that previously the register was owned and controlled by the Finance Director and she thought that collective ownership would give additional assurance to this Committee. The Interim Principal / CEO commented that he had experience of a risk register previously owned by the Principal / CEO but in effect, the actions tend to be assigned to the Finance Director. This was felt to create a healthy tension between the senior post-holders. The Chair asked whether anyone had any experience where individuals come to the Audit Committee to present their risks and describe how they are managed. The Financial Consultant indicated that he has experience of this through deep dive activity. Areas for this type of activity would be identified at the start of an annual cycle exploring potential risks. The Clerk confirmed that risk review is on the annual cycle of Board (twice per year) and there is a need to develop the committee cycles so they have regular review of their risks. The Chair advised that the register will be key in the future and the Audit Committee will be looking to develop assurance that the document is embedded and consistent in its approach.

***The report was noted.***

### **A/739 ILR Action Plan**

The report was presented by the Director of Business Development.

The Chair confirmed that the Audit Committee had received the original investigation report in October 2019 and would now seek assurance that processes are fully embedded and that documented evidence is in place where it needs to be. Minutes of meetings where decisions are taken should be available to avoid any similar situations occurring. The presentation of the action plan gives an overview of lessons learnt. The Clerk agreed that assurance is required. At the time of the original investigation PWC were asked whether they would have picked up any of the issues during the audit of the ILR. They advised that it would have been difficult to pick this up. The Clerk suggested that an ad-hoc audit of the ILR be considered. The Chair was supportive of this and indicated that it would also give the ESFA some comfort. The Interim Finance Director advised that PWC have a learner numbers audit on the agenda and that they could be asked to focus particularly on apprentices. The Director of Business Development indicated that an ILR audit on learner numbers could look at any type of movement to check whether issues can be identified. The College are monitoring movement on a monthly basis and he didn't think that this type of review would be too difficult or onerous. Some activity will span academic years and this will be flagged to the auditors. A member highlighted that there are some incomplete sections on the plan in terms of whether actions are complete. The Director of Business Development to update these gaps. The Chair asked that the

Director of Business Development takes forward the review of learner numbers agreeing that PWC should be pointed in the direction of apprentice activity to give assurance to the Audit Committee and, ultimately, to the Board.

*Action: Director of Business Development to update any gaps on the action plan.*

*Action: Review of learner numbers to be focused on apprenticeship activity.*

***The report was noted.***

#### **A/740 Any Other Business**

The Clerk took the opportunity to recognise the contribution of the Chair to the Audit Committee and the Board indicating that there will be a future opportunity to formally acknowledge this prior to his intention to step-down.

The Clerk advised that the current Support Staff Governor, Darren Heathcote, who was formerly a member of the Audit Committee will now be serving on the People Committee following the review of committee membership. Darren's contribution to the Audit Committee was recognised and the Clerk advised that she would pass on the appreciation of the other members to Darren.

*Action: Clerk to formally acknowledge Darren Heathcote's contribution to the Audit Committee.*

#### **A/741 Date of the next meeting**

The date of the next Audit Committee meeting was confirmed as Wednesday 10 February 2021 at 4.00pm. There is a joint meeting of the Audit and Finance and General Purposes Committees on Wednesday 2 December 2020 at 4.00pm.

*The meeting ended at 6.30pm.*