

# HARLOW COLLEGE FURTHER EDUCATION CORPORATION

## AUDIT COMMITTEE

### Minutes of the meeting held on Tuesday 19 June 2018

Membership	*P Bartlett (Chair) *C Chatt A Durcan
*denotes present	*R Levy
In attendance	N Cattini, RSM M Smith, Scrutton Bland M Stokes, Deputy Principal D Morgan, Executive Director – Financial Services P Whitehead, Executive Director – Information, Data and Support D Sheridan, Clerk to the Corporation R Lucas, Deputy Clerk to the Corporation

#### **839 Apologies for Absence**

There were no apologies for absence.

#### **840 Declarations of Interest**

There were no declarations of interest.

#### **841 Minutes of the Previous Meeting**

The minutes and the confidential minutes of the Audit Committee meeting held on 28 February 2018 were agreed as an accurate record of the meeting and were signed by the Chair.

#### **842 Matters Arising from the Minutes (not mentioned elsewhere on the agenda)**

##### **842.1 Audit Findings Report (minute 830.1 refers)**

D Morgan reported that a monitoring process linked to the change of supplier details has been put in place; however a monthly audit trail has not been implemented due to the staffing size of the finance team.

M Stokes confirmed that the College is still waiting on its insurers for the open insurance claim to be finalised.

##### **842.2 Annual Report and Financial Statements for 2016/17 (minute 830.2 refers)**

D Morgan confirmed that the College had received written confirmation from the bank that both bank covenants were met in the latest year end accounts.

##### **842.3 GDPR (minute 834 refers)**

P Whitehead and R Lucas asked what level of GDPR training Governors would

like to receive based on a discussion held at the Audit Committee meeting on 28 February 2018. All members of the Audit Committee self-declared that they had received an appropriate level of GDPR training through their employers, however it was felt that not all members of the Governing Body would be as well-informed as the Audit Committee members. It was agreed that some training may be necessary for other Governors.

Discussion was held around the meeting papers circulated electronically to Governors. The Audit Committee noted that no personal data is contained within the Governing Body paperwork and if the situation arose that personal data was included, an alternative method of distribution would be adopted.

## **843 Internal Audit Reports**

### **843.1 HR Management**

The Audit Committee received and considered the internal audit report on HR Management by M Smith, Scrutton Bland.

M Smith highlighted the areas covered by the audit and informed Governors that the internal audit report on HR Management provided Governors with significant assurance that the governance, risk management and control arrangements for the material risks reviewed are managed effectively. Governors noted that one high level recommendation and three low level recommendations had been made and that one of the low level recommendations had not been accepted by the College.

Governors' attention was brought to the summary of findings and the issues identified during the audit. A detailed discussion was held around the high level recommendation concerning risk assessments for staff whose DBS check had not been completed prior to them starting their employment at the College. R Levy asked if these staff were left unaccompanied with a group of students. M Smith confirmed that the College has processes in place to ensure that they were not unaccompanied. P Whitehead reported that these risk assessments were the responsibility of local managers, however following the audit, the College's processes changed immediately, with formal agreement by the Principalship to the risk assessments now required.

M Smith reported that it is not uncommon to have staff in a college waiting for their DBS clearance however appropriate safeguards need to be implemented and in place.

Governors asked how the risk assessments are shared and communicated in the classroom. P Whitehead reported that it is the responsibility of the local manager to share the risk assessments with the teams and he also confirmed that changes in processes have been implemented to ensure that paperwork is completed and that systems are followed and accurately recorded.

The Audit Committee requested that his high level recommendation is followed-up by internal audit as part of their work in 2018/19 and that management undertake regular spot checks to ensure processes are being

followed.

The Audit Committee noted the internal audit report on Safeguarding.

### **843.2 Learner Records Funding Compliance**

The Audit Committee received and considered the internal audit report on Learner Records Funding Compliance, presented by M Smith, Scrutton Bland.

M Smith highlighted the areas covered by the audit and informed Governors that the internal audit report on Learner Records Funding Compliance provided Governors with significant assurance that the governance, risk management and control arrangements for the material risks reviewed are managed effectively. Governors noted that four low level recommendations had been made. M Smith highlighted the management responses to the recommendations and P Whitehead provided Governors with some further detail around processes and procedures linked to them.

The Audit Committee noted the internal audit report on Learner Records Funding Compliance.

### **843.3 GDPR**

The Audit Committee received and considered the internal audit report on GDPR, presented by M Smith, Scrutton Bland.

M Smith highlighted the areas covered by the audit and informed Governors that the internal audit report on GDPR provided Governors with significant assurance that the governance, risk management and control arrangements for the material risks reviewed are managed effectively. Governors noted that the audit had taken place over two visits to assess the College's readiness for GDPR and that a consultative approach had been taking with a significant element of sense-checking what the College was doing to prepare for GDPR. Two low level recommendations had been made and recommendations for the initial visit were followed up with the second visit.

A discussion was held around the Cyber Essentials accreditation, which is regarded as a data protection kite mark. The College will look into obtaining this accreditation in the next academic year.

The Audit Committee noted the internal audit report on GDPR.

### **843.4 IT Infrastructure**

The Audit Committee noted that the College is working through the management responses to the internal audit on IT Infrastructure. M Smith reported that there were no significant areas of concern and R Lucas agreed to circulate the report once finalised.

### **843.5 Internal Audit Risk and Assurance Progress Report**

The Audit Committee received and considered the Internal Audit Risk and Assurance Progress Report presented by M Smith from Scrutton Bland. The Committee noted that current status of all the internal audits for 2017/18.

Governors were informed that the Health and Safety audit has been completed and a draft report was due imminently. M Smith highlighted that the report will contain a number of high recommendations and will provide limited assurance. M Stokes reported that the College is in the process of addressing issues arising from the audit and that the audit findings highlight what the College already knows and what needs to be done.

The Audit Committee noted that health and safety will be followed up in the 2018/19 internal audit plan.

The Audit Committee noted the Internal Audit Risk and Assurance Progress Report.

#### **844 Audit Tracker**

The Audit Committee received and considered the Audit Tracker, presented by P Whitehead, Executive Director – Information, Data and Support.

Governors noted that recommendations 1 and 2 were close to being completed and that apprenticeship targets for 2018/19 are currently being worked on. A number of recommendations have been completed and will be removed from the tracker. Recommendations 8, 9 and 10 are currently being worked on and recommendation 11 has a revised implementation date.

Governors noted the progress made against issues arising from external audit which were not formal recommendations.

The Audit Committee approved the audit tracker.

#### **845 Internal Audit Plan 2018/19**

The Audit Committee received and considered the Internal Audit Plan for 2018/19, presented by M Smith from Scrutton Bland.

Governors noted the areas on which opinions must be given to: risk management, governance, efficiency, economy and effectiveness and finance. The list of audits was discussed by the Audit Committee and Governors noted that the plan had been developed based on the College's risk register and prior audit coverage. The Committee noted that a follow-up HR audit will also be undertaken.

The Audit Committee approved the Internal Audit Plan for 2018/19 and agreed to recommend it to the Corporation at its meeting on 19 July 2018.

#### **846 External Audit Strategy**

The Audit Committee received and considered the report on the External Audit

Strategy for the year ending 31 July 2018 presented by N Cattini from RSM UK. Governors noted that the Audit Plan was developed after an initial planning meeting with the College and a detailed programme will now be put in place.

N Cattini highlighted that there were no fundamental changes in the scope of the audit following the introduction of the Audit Code of Practice as set out in sections 1 and 2 of the strategy.

N Cattini reported on section 3 – Risks and Other Areas of Focus – in detail. Governors noted that the audit will focus on and test the following areas: management override of controls, income recognition, pension scheme liabilities, regularity review, going concern and accommodation strategy. Governors noted that linked to going concern is a pinch point in finances in quarter 1 linked to Stansted Airport College funding and that a key area for the College would be managing its cash flow. Governors also noted that the interest rate swap is on the balance sheet, however hedging accounting principles may arise.

As part of the accommodation strategy, the audit will focus one off accounting entries for Stansted Airport College, monitoring arrangements and KPIs. P Bartlett asked how Stansted Airport College will be recorded in the accounts and D Morgan confirmed that it will be classed as “under construction” at year-end.

Governors noted the fee proposal and that any changes to the scope of the audit will be communicated to the Committee. Nick Cattini will be the College’s Audit Principal and the wider RSM UK staff team are to be engaged on the audit.

P Bartlett asked about the Teachers’ Pension Scheme audit and the need for it to be presented to the Committee. N Cattini confirmed that the scope had been finalised and agreed that the audit report would be presented to the Audit Committee.

P Bartlett asked if there are any sector developments which the Audit Committee should be considering. N Cattini reported that the Insolvency Regime as well as college mergers are significant issues facing the sector along with the ever-evolving relationship between the sector and the banks. N Cattini also confirmed that there are on-going VAT discussions taking place between the College and RSM UK.

The Audit Committee approved the External Audit Strategy for Harlow College for the year ending 31 July 2018.

## **847 Audit Code of Practice**

The Audit Committee received and considered the report on the Audit Code of Practice, presented by D Sheridan, Clerk to the Corporation. D Sheridan reported that the Code was released in March 2018, is applicable from 1 August 2017 and sets out the assurance and accountability requirements.

Governors noted that the Code states that staff governors should not be a member of the Audit Committee. A detailed discussion was held around this. M Smith reported that this had been subject to discussion at the FE Audit Forum and confirmed that this is seen as best practice therefore if a staff governor continues to serve as a member of the Audit Committee, the Corporation should document their skills and why it is

appropriate for them to be on the Committee. P Bartlett reported that he believed there is value to be had with having a staff governor on the Committee as without this, the Committee would be less visible across the College.

Both M Smith and N Cattini confirmed that numerous colleges are not removing staff governors from their Audit Committees. Part of the sector establishing what is classed as good practice is to look at the skills mix of the Committee and that practices should not be changed if the right skills mix currently exists.

The Audit Committee noted that there had been no fundamental changes to the regularity self-assessment questionnaire which needs to be completed.

The Audit Committee reviewed its Terms of Reference and agreed to remove the reference to staff governors being unable to sit on the Audit Committee. The Committee may include staff governors that bring the skills needed to the Committee.

The Audit Committee agreed the following arising from the report on the Audit Code of Practice:

- That the Staff Governor continues to be a member of the Audit Committee and declares at each meeting whether there is any conflict of interests with items on the agenda. It was recognised that both staff governors should not be allowed to sit on the Audit Committee at the same time.
- That the Audit Committee recommends that the Principal and Chair of Governors sign the regularity self-assessment questionnaire.
- That the reference to staff governors being excluded from the Audit Committee be removed in the Committee's terms of Reference.

## **848 Risk Management**

The Audit Committee received and reviewed the Risk Register, presented by P Whitehead, Executive Director – Information, Data and Support. Governors noted that all risks are reviewed by the College's Executive on a monthly basis and currently there are seven high risks, eight medium risks and three low risks.

Governors discussed changes since the last Audit Committee meeting and noted that two risks had been deleted from the register:

- "Not securing a satisfactory outcome in terms of Academic Standards in the Higher Education QAA Review taking place in March 2018". This has been deleted as the College's QAA Review has taken place and a judgement of "confidence" has been awarded by QAA.
- "Failure to meet HE recruitment targets. The College continues to discuss collaboration with ARU and Hertfordshire over higher apprenticeships. The continued use of UCH building is being discussed". This has been deleted as HE income now accounts for approximately 2.5% of the College's overall income.

Governors were informed that three new risks have been added to the register:

- Risk 7 Failure to achieve strong outcomes for students in respect of government performance measures.

- Risk 14 - Failure to implement/follow new procedures for pre-employment checks, including DBS checks.
- Risk 15 – Ownership negotiations with ARU over UCH.

The Committee noted that five risks have been rescored, two with a higher risk score and three with a lower risk score.

- Risk 3 - Stansted Project - failure to deliver on budget (£7.78m) and on time to open in September 2018. Failure to secure sufficient applications and students to be financially viable in September 2018. Failure to secure a letter of comfort from the ESFA.

The risk score has increased from 12 to 15.

- Risk 8 - Not recruiting to the 19+ AEB target.

The risk score has increased from 9 to 10.

- Risk 2 - Instability of funding processes and contract management and failure to procure future funding. Poor planning from Government impedes our ability to meet demand.

The risk score has decreased from 20 to 15.

- Risk 12 - Failure to comply with General Data Protection Regulation (GDPR) which came into effect in May 2018. The new regulations carry significant financial penalties for non-compliance.

The risk score has decreased from 12 to 8.

- Risk 16 - Risks of failure of the Sir Charles Kao UTC. Impact on College reputation and links with local schools as situated on the Harlow Campus. Impact on College 6th form provision. Risk from BMAT sponsoring the UTC in terms of change in nature. Risk of not paying monies linked to the lease to the College and the use of the building if the UTC closes.

The risk score has been decreased from 9 to 4.

P Bartlett asked if there is anything particular on the horizon of which Governors should be aware or which could affect the risk register. P Whitehead informed the Committee of changes in the Adult Education Budget from 2019/2020 onwards and that there are uncertainties with the direction of travel and procurement processes. M Stokes reported that the College could exceed its adult budget target this year and that this year's figures will be used as a baseline.

The Audit Committee approved the risk register.

## 849 Annual Fraud Report

The Audit Committee received and considered the fraud report, presented by D Morgan, Executive Director – Financial Services.

The Committee noted that the College had been subject to a failed fraud attempt where a hoax email chasing payment had been sent. D Morgan reported that the College established the email was fraudulent and the finance team were alerted. N Cattini asked if the College undertakes any form of penetration testing and tests who clicks on links contained within an email. P Whitehead reported that some testing is done however this will be followed up on and be made more routine.

D Morgan explained the College's petty cash system, particularly in relation to the catering petty cash and the double verification system that the College has in place. Governors noted that there would be a petty cash float at Stansted Airport College.

The Audit Committee noted the report on fraud against the College.

### **850 Any Other Business**

There were no items of any other business.

### **851 Dates of Future Meetings**

Autumn Term	Tuesday 02 October 2018	08.30am
	Thursday 06 December 2018	08.30am
Spring Term	Tuesday 28 February 2019	08.30am
Summer Term	Tuesday 25 June 2019	08.30am