

# HARLOW COLLEGE FURTHER EDUCATION CORPORATION

## AUDIT COMMITTEE

### Minutes of the meeting held on Tuesday 21 June 2016

Membership	*P Bartlett (Chair) *N Allen *A Durcan
*denotes present	*P Whitehead
In attendance	H Catchpool, RSM UK M Smith, Scrutton Bland M Stokes, Deputy Principal D Morgan, Director of Financial Services D Sheridan, Clerk to the Corporation R Lucas, Deputy Clerk to the Corporation

#### **743 Apologies for Absence**

Apologies for absence were received from N Cattini, RSM UK.

#### **744 Declarations of Interest**

P Whitehead declared an interest in agenda item 747.2 – Learner Records Follow Up Internal Audit report – due to being the audit sponsor, and agenda item 754 – Supply Chain Fees and Charges Policy 2016/17 – due to being the author of the paper.

#### **745 Minutes of the Previous Meeting**

The minutes and the confidential minutes of the Audit Committee meeting held on 1 March 2016 were agreed as an accurate record of the meeting and were signed by the Chair.

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

##### **746.1 Internal Audit Report – Impact of Employer Engagement (minute 736.1 refers)**

P Bartlett asked whether two targets had been set – one for learner numbers and one for income. M Stokes informed the Committee that the targets are currently being set for next academic year.

##### **746.2 Internal Audit Report – Subcontracting SFA External Controls Assurance (minute 736.2 refers)**

P Bartlett asked if there was an update on the sub-contractor which was not on the SFA's Register of Training Organisations. M Stokes confirmed that it is now on the register and all associated issues have been resolved.

##### **746.3 Internal Audit Tracker (minute 737 refers)**

P Bartlett asked what the current position is with the College's Disaster

Recovery Plan. M Stokes informed the Committee that it is due to be finalised in July 2016 and will be presented at the Corporation meeting on 14 July 2016.

## **747 Internal Audit Reports**

### **747.1 Key Financial Controls**

The Audit Committee received and considered the internal audit report on key financial controls presented by Mark Smith from Scrutton Bland.

The internal audit report on key financial controls 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 medium level and two low level recommendations were made and that these recommendations had been accepted by Harlow College.

Mark Smith highlighted that the audit had reported that procurement over £30k requiring three quotes was a high level. In discussion P Whitehead highlighted that the College must go out to tender for expenditure over £25k therefore the College's financial regulations need to be amended. P Bartlett highlighted that a contracts list will be circulated at the next meeting at which Governors can look at the contract values and discuss what the level should be.

Governors questioned the number of invoices without purchase orders and Mark Smith confirmed that out of fifteen tested, three did not have purchase orders. N Allen asked whether the College needs a deeper check of this and whether the total across the College would be 20%, in line with the numbers tested. D Morgan highlighted that the Finance Team are constantly reminding teams about the need for purchase orders and reported that 20% across the whole College seems a high figure. It was suggested that every time an invoice comes in without a purchase order, it is logged and monitored going forward. N Allen also highlighted that it would be useful to know whether the three found in the audit were of significant value.

The Audit Committee noted the internal audit report on key financial controls.

### **747.2 Learner Records Follow Up**

The Audit Committee received and considered the internal audit report on learner records follow up presented by Mark Smith from Scrutton Bland.

The internal audit report on learner records follow up provided Governors with significant assurance that the governance, risk management and control arrangements for the material risks reviewed are managed effectively.

Governors noted that in the 2014 learner records internal audit, ten recommendations were made. This audit confirmed that eight of these recommendations have been fully implemented by the College. Two low level recommendations were made, which continue from the 2014 audit that have

not yet been implemented and the Committee was informed of them by Mark Smith.

Mark Smith informed Governors that out of a sample of 30, four dates on the ILR differed by more than a week to the first date of attendance on the register. P Whitehead explained that this has an impact on funding received and that systems have been put in place for more regular checks.

The second recommendation is around apprenticeship enrolment on English and Maths. P Whitehead highlighted that the wording had changed from “offered” to “undertake” in the funding statement, however the frameworks have not yet been updated.

The Audit Committee noted the internal audit report on learner records follow up.

#### **747.3 Sir Charles Kao UTC Service Charge**

The Audit Committee received and considered the internal audit report on Sir Charles Kao UTC service charges presented by Mark Smith from Scrutton Bland. Governors noted that this audit was additional to the original audit plan, that the audit reviewed the rationale for the costings charged to the UTC and confirmed that they were in line with the lease. D Sheridan confirmed that the lease is a standard DfE lease and the College would be in breach of the lease if it did not charge the UTC for use of parts of the College.

The payment model for the UTC to pay the charges to the College was discussed.

The Audit Committee noted the internal audit report on Sir Charles Kao UTC service charge.

#### **747.4 Budget Setting**

The Audit Committee received and considered the internal audit report on budget setting presented by Mark Smith from Scrutton Bland. The internal audit report on budget setting provided Governors with significant assurance that the governance, risk management and control arrangements for the material risks reviewed are managed effectively. Governors noted that two low level recommendations and one value added point were made and that these recommendations had been accepted by Harlow College.

Mark Smith highlighted that the College regularly reforecasts its budgets and corrective action taken when needed which has helped to ensure that robust budget setting systems and processes are in place.

The Audit Committee noted the internal audit report on budget setting.

#### **747.5 Internal Audit Progress Report**

The Audit Committee received and considered the Internal Audit Risk and Assurance Progress Report presented by Mark Smith from Scrutton Bland.

Governors noted that seven internal audit reports have been finalised, with a further two audits still to take place this academic year.

Mark Smith reminded the Audit Committee that a date needs to be agreed for risk management and risk appetite training and asked who should be invited to the training.

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

#### **748 Internal Audit Tracker**

The Audit Committee received and considered the Audit Tracker, presented by M Stokes, Deputy Principal. Governors noted that the tracker contains outstanding recommendations arising from all internal audits, external audit and SRF audits and that the College is striving to implement all recommendations in a timely fashion. Governors noted that actioned recommendations will be removed from the Tracker.

Eleven recommendations have been completed and actioned, seven recommendations have had the due date revised and there are two recommendations where the due date has not yet been reached.

P Bartlett asked about the outcome of the Teachers' Pension Scheme audit and how it is reported. Hannah Catchpool confirmed that this is covered in RSM UK's audit findings report.

P Bartlett asked if the due dates on the outstanding recommendations are realistic and M Stokes confirmed that they were.

Mark Smith asked for an update on the CRM system. P Whitehead confirmed that training is being undertaken and the system has started being used on a limited scale. Full implementation is in the early stages however there is clear plan on how to fully integrate the system across the College.

Hannah Catchpool enquired about the catering income and D Morgan confirmed that catering has now been brought in-house.

The Audit Committee approved the audit tracker.

#### **749 Internal Audit Plan 2016/17**

The Audit Committee received and considered the Internal Audit Assurance Strategy and Annual Plan for 2016/17, presented by Mark Smith from Scrutton Bland.

The Audit Committee noted that the opinions they have to give remain unchanged with the need to provide an opinion on the adequacy and effectiveness of the College's audit arrangements, framework of governance, risk management and control, and processes for securing economy, efficiency and effectiveness.

Mark Smith highlighted that it is the Audit Committee's responsibility to determine what internal audits take place and the proposed list of audits was discussed. Governors noted that the plan could change throughout the year.

Mark Smith informed Governors that the plan had been drawn based on information in the College's risk register in relation to the highest risks and internal audits that had recently taken place. He highlighted that Scrutton Bland was not proposing an audit of governance as they believe the Audit Committee are in a position to make assurances on this. The Audit Committee agreed with this recommendation.

Hannah Catchpool raised the new EU legislation concerning data protection which comes into force in May 2018 and whether the College is prepared for this. This is an area which could be covered as part of the proposed data security audit.

P Bartlett asked about ensuring the College is achieving economy, efficiency and effectiveness. Mark Smith highlighted that these are looked at as part of every internal audit and Scrutton Bland forms an annual audit opinion on this based on the information gathered from the audits.

The Audit Committee noted that the sub-contractor assurance audit was included in the Audit Plan however this formed part of the external audit tender. The Audit Committee agreed that this should be removed from the Audit Plan and replaced with another audit agreed by the Committee in conjunction with the College and Scrutton Bland.

The Audit Committee approved the Internal Audit Plan for 2016/17.

## **750 External Audit**

### **750.1 Appointment of External Auditors**

The Audit Committee received and considered the report on the appointment of external auditors, presented by D Morgan, Director of Financial Services.

The Audit Committee noted the report on the appointment of external auditors.

### **750.2 External Audit Strategy**

The Audit Committee received and considered the report on the External Audit Strategy presented by Hannah Catchpool from RSM UK. The report detailed the proposed external audit strategy for the College for the year ending 31 July 2016. Governors noted that an initial planning meeting had been held with the College and RSM UK from which the Audit Plan has been developed and the timetable agreed.

Hannah Catchpool highlighted the engagement objectives for the audit and then talked through section 3 – Key Risks Affecting Our Audit Plan – in detail. Governors noted that the audit will focus on and test the following areas: management override of controls, income recognition, pension scheme liabilities – in line with FRS102, accommodation strategy, going concern, FRS102 – the transition date is 1 August 2014 and the 2015/16 accounts need to be restated and from 2016 onwards, the new model needs to be used, regularity review and joint tenants.

Governors noted that the fees were in line with RSM UK's tender plus the additional costs of the sub-contracting audit and the proposed audit team. Governors were given the opportunity to ask questions and Hannah Catchpool asked if there were any matters or issues that needed to be brought to RSM UK's attention. The Audit Committee confirmed that there were no matters or issues.

Governors' attention was brought to Appendix E which detailed emerging issues in the sector. Hannah Catchpool highlighted that cyber defences are becoming increasingly relevant, the FE Commissioner's annual report highlights issues in the sector with last year's accounts and the EFA and SFA are publishing more regular findings in the sector. RSM UK's 'placemat' was circulated which picks up key areas which RSM UK are currently talking to their clients about.

Governors asked if there were any potential issues with the bank covenants in relation to FRS102, however M Stokes reported that the College had approached the bank and detailed discussions were held around how the covenants are calculated. The bank confirmed that the covenants will continue to be calculated in the same way.

M Stokes asked Hannah Catchpool if RSK UK had received any feedback from HMRC on behalf of the College and she agreed to follow this up with her colleagues.

The Audit Committee approved the Harlow College Audit Plan for the Year Ending 31 July 2016.

## **751 Further and Higher Education SORP 2014 (FRS102)**

The Audit Committee received and considered the report on the Further and Higher Education SORP 2014 (FRS102), presented by D Morgan, Director of Financial Services.

The Audit Committee were informed that the College needs to restate its 2014/15 accounts and that the College has commissioned a revaluation of the campus. Governors noted the following key areas for the College's consideration: accounting policies; bank covenants; tangible fixed assets; leases; government grants (deferred capital grants and employee benefits). D Morgan provided Governors with further information on each of these key areas.

P Bartlett asked if under accounting policies, residual value is being taken into consideration. D Morgan confirmed that the College needs to look at this and Hannah Catchpool highlighted that the College should look at residual values.

The Audit Committee noted the report on Further and Higher Education SORP 2014 (FRS102).

## **752 Risk Register**

The Audit Committee received and reviewed the Risk Register, presented by M Stokes, Deputy Principal.

Governors noted that all risks are reviewed by the College's Executive on a monthly basis and noted the following amendments since the last Audit Committee meeting. M Stokes reported that the new ratings have been adopted as requested by the Committee.

No new risks have been added to the risk register and no risks have been removed.

Four risks have been revised and their risk score increased. Eight risks have been revised and their risk score decreased. Eight risks remain unchanged.

P Bartlett asked what the current situation was with the UTC and an update was given by D Sheridan.

P Whitehead asked whether the risk concerning financial health should be increased due to the new accounting methodology and D Morgan highlighted the need for the financial health to remain good, particularly in relation to the area reviews.

P Whitehead also raised the issue with risk 13 - a number of Academy teams or Partners fail to achieve the required performance – and it was agreed that apprenticeships should be taken out and form their own medium risk, based on the College's own self-evaluation and the recent Ofsted findings.

The Audit Committee approved the risk register.

### **753 Annual Fraud Report**

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

The Audit Committee noted that the College had been subject to an attempted fraud however the finance team were suspicious of the email and the attempt was unsuccessful. Hannah Catchpool reported that this is a common issue and that the College should ensure that staff at all levels are aware of and vigilant for attempted fraud.

The Audit Committee noted the report on attempted fraud.

### **754 Supply Chain Fees and Charges Policy 2016/17**

The Audit Committee received and considered the Supply Chain Fees and Charges Policy 2016/17, presented by P Whitehead, Director of MIS and Admissions.

The Audit Committee were informed that the internal audit on sub-contracting took place in January 2016 and that the policy has been reviewed following on from the audit. The College will only sub-contract with two organisations next year – Essex County Council and Academy of Learning.

P Whitehead informed Governors that the rate charged depends of the level of service provided by the College.

P Bartlett asked about the apprenticeship levy and M stokes confirmed that the

College is in discussions with a number of employers around their levy.

The Audit Committee approved the Supply Chain Fees and Charges Policy 2016/17.

**755 Any Other Business**

There were no items of any other business.

**756 Dates of Future Meetings**

The Audit Committee noted the proposed dates of future meetings and the Committee Business Plan.

Autumn Term	04 October 2016	08.30am
	01 December 2016	08.30am
Spring Term	28 February 2017	08.30am
Summer Term	20 June 2017	08.30am