

Doc No AUD 02/16-1

Agenda item 4

AUDIT COMMITTEE

DATE: WEDNESDAY 11 NOVEMBER 2015

PLACE: RM 410 WANDSWORTH CAMPUS

TIME: 5.30 pm.

PRESENT: Daud Ilyas (Chair), Barbara Morris-Welsh (External Co-Opted) Michael Helene, Kazi Hossain.

IN ATTENDANCE Natalie Watt, Clerk to the Corporation
Sue Rimmer, Principal & Chief Executive
Chris Wright, VP Planning & Funding
Ralph Moran, Director of Finance
Katherine Patel, Buzzacott, External Auditor
Graeme Clarke, Mazars Internal Auditor
Jerry Barton, Mazars, Internal Auditor

1. **Apologies for Absence**
Tim Morris (External Co-Opted Governor), Katie Driver.
2. **Declarations of Interest**
None
3. **Minutes of the last meeting held on 10 June 2015.**
 - The minutes were approved and signed by the Chair, subject to the title of Barbara Morris-Welsh being amended to reflect external co-opted status. Noted.
 - Members requested that draft minutes be circulated asap after the meeting. Noted.
4. **Matters Arising:**
 - **Disaster Recovery Plan** – The Director of Finance confirmed that the over-arching disaster recovery plan was a work in progress and that an update would be provided to the next meeting.
 - **Income % for Students with Visas** – In 2014/15 international income was £1.1m, which was 2.9% of income. Noted that the final calculation had yet to be provided.
 - **Freedom of Information and Data Protection Audit Reports** – On Agenda.
 - **Quality Audit Deferment** – The Director of Finance confirmed that this will be taking place in 2015/16.
 - **Mazars** – Graeme Clarke confirmed that the audit team had been strengthened and no resourcing issues were expected during the

Director of
Finance

coming academic year. Noted.

- **Mazars** – Members were invited to make observations on format, style and content during the reporting of individual audit reports.
- **Accommodation Strategy** – The Director of Finance confirmed that an Accommodation Strategy would be updated during the year following the sale of the Tower Block. Members noted that delivery of this may be impacted by the strategic alliance discussions currently underway. Members were informed that the sale of the Tower Block had a completion date of 10th January 2016.
- **Capital Project** – It was noted that the latest report had been circulated after the last meeting and an update provided to the Corporation in October which was circulated to all Members.
- **Mazars** – The Clerk confirmed that a revised annual audit plan had been circulated in July and was subsequently approved by the Corporation in July 2015.
- **Business Continuity** – The Director of Finance confirmed that all outstanding recommendations were under review and that as part of Business Continuity Planning the Disaster Recovery Plan was due for completion this academic year.
- **Outstanding Recommendations** – The Director of Finance confirmed that no outstanding recommendations were more than 24 months old.
- **Marketing Strategy** – The Principal confirmed that this had now been approved by the Senior Leadership Team. Copies were circulated for information.
- **Room Utilisation** – The Director of Finance confirmed that no comparable data for other Colleges was available. Some data on room utilisation would be available with the completion of the E mandate information later in the year. Discussion followed on the number of students currently using the facilities against the overall capacity. Members suggested that it may be useful to conduct a utilisation study based on guided learning numbers. Noted.
- The Director of Finance confirmed that £10m of funding had ceased over the last 3 years.
- Members urged the Senior Leadership Team (SLT) to be creative in marketing the facilities to raise utilisation.
- The VP Planning and Funding confirmed to Members that any significant increase in student numbers was unlikely and that arrangements and partnerships with the private sector provided the most likely method of increasing utilisation of facilities. Noted.
- **Terms of Reference** – The Clerk confirmed that the external auditors had reviewed the terms of reference and the proposed changes had been included in the draft attached to the agenda.
- **Mazars** – The Clerk confirmed that the company statement had been circulated to all Members. Noted.

5. External Audit Financial Statements

i) Financial Statement Audit – Presented by Buzzacott

Items discussed:

- The Auditors confirmed that following the publication of the Joint Audit Code of Practice the Post Audit Management Letter now only expressed limited assurance.

- Members queried how this change in assurance had been reflected in the work undertaken for the audit of the Financial Statements.
- Members were advised that the level of detail and work was of a similar nature as both assurances required the same level of focus and testing.
- Members raised the issue of a future potential reduction in fees due to the limitation on assurance now offered. Noted.
- Members were informed that an unqualified opinion was given on the financial statements, although a number of significant assumptions had been built in to this which were still to be evidenced.
- Members were informed that the points raised on page 2 were expected to be confirmed and or resolved in the next few days. The three key areas of concern were identified as follows:
 - **The workings to support the £500k provision** of costs arising due to the loss of the tier 4 sponsor licence were still outstanding.
 - **The SFA funding reconciliation letter** had not yet been received. Members were informed that this was not expected until the first week of December, and custom and practice to date had been to sign off the accounts once formal verbal notification had been provided. Members expressed concern over this approach and the VP Planning and Resources agreed to contact the SFA to seek confirmation of the publication date.
 - **The Lloyds letter of waiver** was still outstanding. The Director of Finance informed the Auditors that following developments that day, further negotiations were needed with Lloyds. Legal advice had been sought from the College legal advisors, Eversheds, who had indicated that they did not think any breach had occurred.
- Following discussion and expressions of concern from Members it was agreed that the Director of Finance, the Principal and the Auditors would liaise outside of the meeting to confirm the approach to be adopted in the accounts.
- Members sought assurance that the management letter would be available for the Corporation to consider as part of its remit in signing off the Financial Statements by the end of December 2016.
- Following further discussion Buzzacotts confirmed that they would need to re-visit the management letter and the statement in the accounts confirming that the College was a going concern.
- The Clerk also indicated that until these documents were finalised the Audit Committee Annual Report would remain in draft.
- It was agreed that the Committee would be kept updated via email about any developments with regard to the post audit management letter and findings.
- Members noted the statement of new practice to comply with the Further Education / Higher Education Statement Of Recommended Practice (SOPR) on page 11 of the Post Audit Management Letter.
- Members' attention was directed to the Appendices.
- Members expressed their concern with the ratio's identified at appendix 1 but also noted that this was largely due to the impact of the Tower Block Sale not completing until 10th January 2016.
- Noted that Appendix 2 will be subject to change and confirmation following the above developments.

VP
Planning &
Resources

- Noted that Appendix 3 detailed adjusted and non-adjusted items, this was unlikely to be subject to any further change.
- The pension details provided at Appendix 4 were noted and discussion followed on the level of liability (approx £21m for the London Pension Fund Authority LPFA) of the College.
- The Director of Finance confirmed that the Merton College pension transfer had now taken place. Members discussed the actuarial assumptions and the cycle of evaluation for both schemes.
- Appendix 5 was an overview of developments in the sector.
- Noted that Appendix 6 provided a comparison table of averages for College audited by Buzzacotts for information.
- It was agreed that a revised Management Letter would be circulated to Members of the Audit Committee as soon as it was available.
- Members expressed concern at not seeing detailed cash flows and management accounts. (Noted that the Financial Statements had been supplied with the Management Letter).
- The Director of Finance confirmed that the monitoring of the accounts and financial position of the College was the responsibility of the Finance and Resources Committee and that monthly management accounts were prepared for both the Senior Leadership Team and F&R Committee Members.
- Members also raised concerns about how they could discharge their responsibilities under the Joint Audit Code of Practice.
- Discussion followed on the management information provided to the Finance and Resources Committee and the Corporation as part of the assurance framework for financial monitoring.
- The Director of Finance also confirmed that the Auditors had recently audited the budget control system with no significant issues arising.
- The Clerk to the Corporation confirmed to the Committee that the Joint Audit Code of Practice assumed that only the Audit Committee existed as this alongside the Search Committee were the only legally required Committees. However, South Thames College had standing Committees whose terms of reference addressed different aspects of the requirements.
- It was agreed that copies of the terms of reference of other committees would be circulated for information. The Clerk confirmed that these documents along with the standing orders and Instrument and Articles are also available on the College website.
- Members were advised that the Finance and Resources Committee would be undertaking a detailed scrutiny of the accounts presented as part of their remit and would be making appropriate recommendations to the Corporation.
- It was recognised that in this instance the Audit Committee would be unable to recommend the Post Audit Management Letter to the Corporation as key items were still to be confirmed.
- It was agreed that the Post Audit Management Letter would be kept under review by the Chair of the Committee and that the Committee would be kept informed of any progress.
- Katherine Patel (Buzzacotts) offered to attend the Corporation should the Chair of the Committee find it useful given the complexity around the Post Audit Management Letter and advice to the

Director of
Finance

Clerk

Director of
Finance

Clerk &
Committee
Chair

Corporation. The Chair of the Committee thanked her for her offer. It was agreed that attendance would be confirmed once the Chair of the Corporation had been contacted. Noted.

Report RECEIVED.

6. Internal Audit Service

i) IAS Annual Report (IAS) 2014/2015– Presented by Mazars (Internal Auditors).

Items discussed:

- Members were informed that the assurance given was based on a full scope service which the Corporation had opted to retain.
- Members were informed that the report was one of a suite of assurance documents and that the external management letter and the risk management reports also provided assurance to enable the Committee to triangulate their views to reach an opinion. Noted.
- Members noted that the PAYE review had not taken place.
- Members' attention was drawn to section 3 and the clean audit opinion given to the College. The College was considered generally adequate and effective with no fundamental weaknesses. Members were provided with a verbal summary of the report.
- Members noted the update and the appendices also submitted for consideration.

Report RECEIVED.

ii) Updated Internal Audit Strategic Plan 2015/16

- Members were informed that the annual report had been circulated for information following the changes made last term.
- Members requested that document control be improved to confirm which copy was the final revised one for future reference. Noted.

Mazars

Report RECEIVED.

7. Internal Audit Report – Visit 3 – Presented by Mazars

Items discussed:

i) Follow Up Report

- Following discussion it was confirmed that this report should have been presented to the Committee instead of the progress report.
- Noted that this audit had been completed but that management responses were awaited.

Mazars

Report to be carried forward to the next Committee.

ii) Data Protection & Freedom of Information

- Members were provided with a summary of the report and attention was drawn to the controls which have been tested.
- Specific mention was made of the establishment of a dedicated freedom of Information email address which was considered to be innovative and effective.
- Members were informed that the level of requests were in line with FE sector norms.
- Members were also assured that Management had co-operated fully and agreed with the timescales and observations made. Noted.

Report RECEIVED.

iii) Corporate Governance & Risk Management

- Members' attention was drawn to the substantial assurance given for this audit.
- Discussion followed on the outstanding recommendation for Risk Management which still required an assurance mapping exercise to be undertaken across the College. Noted.
- Members were informed that the auditors obtained a strong sense of a dynamic and on-going approach to risk management throughout the organisation.
- It was noted that e-governance had not been progressed to date and further work would be undertaken to consider this in year.

Report RECEIVED.

iv) Learning Support

- Members attention was drawn to the substantial assurance also received for this area.
- The Auditors particularly mentioned the effective use of specialist software which was more widespread than in comparable colleges.
- Noted that there was one priority 3 recommendation.

Report RECEIVED.

v) Progress report 2014/15

- Noted that this was a summary of work undertaken for the year.

Report RECEIVED

8. Internal Audit Service Progress Report 2015/16

- Members were informed that this report was for information only. Initial fieldwork had been undertaken but no reports were available as yet. Noted.

Report RECEIVED.

9. Implementation Monitoring – Presented by the Director of Finance.

Items discussed:

- The Director of Finance provided a short summary of the changes since the last report. It was noted that no recommendations were more than 24 months old.
- Members were informed that staff expenses were still an area for review as system developments had impacted on the completion of this recommendation. Noted.
- Members were assured that Business Continuity Plans were in hand.
- Members were also informed that the College was assisting in a pilot automated software system on staff utilisation which it was hoped would assist in planning for the future.
- Members were informed that VT stood for Visiting Teachers. Noted.
- Discussion followed on FAST methodology referred to in the report.
- The Director of Finance confirmed that consideration was given to the use of this software but it was considered not appropriate or compatible with College systems.
- Members requested that if the recommendation had been completed or was not considered relevant then it be removed from the list. However, this should happen only once it had been reported to the Committee in the implementation monitoring report and the Auditors

Director of
Finance

had confirmed the action taken Noted.

- The Director of Finance provided a brief overview of the accounting software used in the College. Noted.
- The Internal Auditors drew to Members' attention the additional work requirement by the Skills Funding Agency. It was noted that the Internal Audit firm were also empowered to undertake this work. The Director of Finance agreed to give this consideration.
- Following discussion on the register of interest, the Director of Finance confirmed that the Financial Regulations would be updated to reflect a duty to disclose.
- It was agreed that further consideration would also be given to expanding the current list of those required to update the register of Interests.

Director of
Finance

Report RECEIVED.

10. Insurance Claims Update

- Members were informed that the report had been requested direct from the Insurers to provide the Audit Committee with an idea of the scope and frequency of claims.
- Members were informed that the College had comprehensive insurance in place.
- Discussion followed on the number of claims and the areas of concern.
- It was agreed that the report would be considered by the risk management group and part of its considerations and a summary of the claims would be reported to the Audit Committee on an annual basis.
- The VP Planning and Resources informed Members that the information as also used in the annual Health and Safety Report to the Corporation. Noted.
- The Clerk provided some additional details and anecdotal examples to the Committee.

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Finance

Report RECEIVED.

11. South Thames College

Financial Management Control Evaluation (FMCE) – Presented by the Director of Finance

Items discussed:

- Members were informed that the scope of the regularity audit combined with the requirements of the Code of Good Governance for English Colleges was considered to give sufficient assurance in place of the Financial and Management Control Evaluation questionnaire. Agreed.

Report RECEIVED and recommendations to remove the FMCE requirement APPROVED.

12. Audit Committee Annual Report 2013/14– Presented by the Chair of the Committee

Items discussed:

- The Chair informed Members that it had not been possible to provide a full draft due to the delays with the External Auditors' Post Audit Management Letter and the Internal Audit Annual Report.
- Members were asked to consider and comment on other areas as

appropriate.

- Some Members felt that there was not sufficient opinion expressed in the report.
- The Clerk informed Members that the draft contents had been sent to the Internal Auditors who had confirmed that the report was sufficient to meet requirements.
- However, following discussion it was agreed that the Clerk would cross check the areas required by the Joint Audit Code of Practice and where appropriate provide an opportunity for an opinion to be expressed which would be circulated to the Committee for comment.
- Members requested that a summary of the self-evaluation process (completed by the Audit Committee Members on their performance) be circulated via email for inclusion in the report.
- The Internal Auditors and the Committee agreed that the tone of the report should reflect in a more active and positive light the work of the Committee. Noted.

Report RECEIVED.

13. Fraud Response Plan- Presented by the Director of Finance

Items discussed:

- Members were informed that no new cases had been reported since the last meeting.
- Members were also informed that the on-going case still remained open.

Update RECEIVED.

14. Risk Management 2015/2016– Presented by the Director of Finance.

Items discussed:

- Members received the report and detailed discussion followed over the proposed removal of risk 137.
- Following discussion and in light of the current challenges the Audit Committee requested that the risk remain active on the register.

Report RECEIVED.

15. Freedom of Information Update – Presented by the Director of Finance.

The following requests had been received since the last meeting:

- 1. Received 27/08/15 –** NUS query on any links to the energy industry. Responded to.
- 2. Received from** Chris Page, Tender Searches.- Tender information or fire fighting equipment requested. Responded to within time.
- 3. Received 10/11/15 –** UCU requested information on the national wage gap between groups of staff. Work in progress.

16. Whistleblowing

- The Clerk to the Corporation confirmed that the Director of HR & Workforce Development had confirmed that no new instances of Whistleblowing had been received since the last meeting.

Update Received.

17. Any Other Business

- **Draft Audit Committee Work Plan –** The Clerk confirmed that the work plan had been circulated to the Director of Finance for comment.

- Members requested that following proposed revisions to the terms of reference the work plan be considered again.
- It was agreed that the Clerk would review this again against the Joint Audit Code of practice and email the Committee for any comments.
- **Terms of Reference** – Members asked for the terms of reference to be reviewed in light of the Joint Audit Code of Practice. The Clerk confirmed that the Joint Audit Code of practice had been referred to and that the terms of reference with appropriate updates had also been submitted to the Internal Auditors for consideration.
- Following discussion it was agreed that the Clerk would update the Terms of Reference on a comply or explain basis against the Joint Audit Code of Practice.
- Members requested that where the Committee’s responsibilities identified as requirements were met within the terms of reference of other committees these should be cross referenced.
- It was agreed that revised Terms of Reference would be circulated again for comment outside of the meeting. Noted.
- The Chair noted that each Committee had a specific remit and needed to operate within the overall Governance framework.
- **Extension to the Appointment of the External Auditors.**
Members were informed by the Director of Finance that the External Audit contract was due for renewal as 7 years had now elapsed.
- Members were asked to approve an extension to the appointment of the auditors for one year in light of the strategic alliance discussions taking place.
- The Committee requested that legal and audit advice be sought regarding the proposed one year extension in order to ensure that the Board would be acting within its powers before the Committee would recommend such course of action. Subject to this caveat the Committee would recommend such course of action.

Clerk

Clerk

Clerk

Director of Finance

18. Date and Time of the Next Meeting

- **Wednesday 24 February 2016 at 5.30pm** at the Wandsworth Campus

Signed By: _____

Date: _____