



**MINUTES AUDIT COMMITTEE MEETING OF 26 MARCH 2020 BY SKYPE**

*(All resolutions passed were the unanimous decision of the Audit Committee members present unless otherwise stated)*


<b>Meeting Title</b>	Audit Committee
<b>Date</b>	26 March 2020
<b>Members</b>	Ms K. Driver Mr M.J. Stone Mr N. Ware
<b>In Attendance</b>	Chair  Mr M. Cheetham Ms. R. Devan Mr R. Greenaway Mr D. Thornton Mrs H Meredith
	RSM Director of Finance Deputy CEO Director, MIS Head of Governance
<b>Key Meeting Outcomes</b>	
	The meeting took place by Skype due to the College closure because of the Covid-19 pandemic. The Chair welcomed everyone to the meeting and thanked them for making the effort to attend the meeting in these unprecedented circumstances.
<b>1.</b>	<b>APOLOGIES</b>
1.1	Apologies were received from Mr Allen (who has moved to this committee from the FP& R Committee but was unable to access the skype meeting) and from Mr Roberts.
1.2	<b>DECLARATION OF INTEREST</b> Mr Ware declared his usual interest as a retired partner in Baker Tilly and that he undertakes consultancy work for RSM. RSM have previously informed Carshalton College’s Audit Committee that their Ethical Committee have reported that there is no conflict of interest as his association with RSM is totally separate from the audit side of the firm. Other members confirmed that they did not have any pecuniary or other interest in any item on the agenda.
<b>2.</b>	<b>MINUTES OF AUDIT COMMITTEE MEETING OF 29 NOVEMBER 2019 AND WRITTEN RESOLUTION 10 DECEMBER 2019 AND MATTERS ARISING</b>
2.1	<u>Accuracy.</u> A revised set of minutes for the meeting of 28 November 2019 was circulated to correct some errors. The revised set of minutes was accepted as an accurate record to be signed by the Chair.
2.2	The written resolution of 10 December 2019 was accepted as an accurate record.
2.2.1	It was <b>resolved</b> to note the minutes and the written resolution.
2.3.	<u>Matters arising</u> Members reviewed the action log noting that actions had either been dealt with or were on the agenda for this meeting. The Committee received and noted an exchange of emails with the ESFA in relation to the impairment of net assets point, which was also covered in Item 5.1.
<b>3.</b>	<b>ELECTION OF VICE CHAIR</b>
3.1	Cllr Cook was elected as Vice-Chair of the Committee.

<p>4.</p> <p>4.1</p> <p>4.2</p> <p>4.3</p> <p>4.4</p>	<p><b>PREVIOUS AUDIT RECOMMENDATIONS</b></p> <p>A Tracker Report covering previous Internal Audit Recommendations was received and reviewed by the Committee and was presented by the Deputy CEO.</p> <p>The Deputy CEO commented on the disappointing lack of progress in relation to the outstanding recommendations for apprenticeships-these were discussed in more detail under Item 5.5.</p> <p>It was <b>resolved</b> to note the report.</p> <p>It was agreed that for the next meeting the tracker report should contain more specific detail on the progress towards completion of outstanding actions, for example a percentage, proportion or other indication of the work completed thus far, and a date by which completion was anticipated.</p>
<p>5.</p> <p>5.1</p> <p>5.1.1</p> <p>5.1.2</p> <p>5.1.3</p> <p>5.1.4</p> <p>5.1.5</p> <p>5.1.6</p>	<p><b>INTERNAL AUDIT REPORTS</b></p> <p>The Chair thanked Mr Cheetham for the revised format of these reports commenting that the examples of good practice highlighted by these are useful for the committee.</p> <p><b>Internal Audit Review into reduction of Net Assets of STCG</b></p> <p>Mr Cheetham, RSM, presented the review which confirmed that the information needed to provide the opportunity to impair the 2016-17 Financial Statements of legacy South Thames College was known about by those who would have been in a position to consider the need for an impairment review at the time of preparing and auditing the 2016/17 financial statements prior to the merger. The minutes of the July 2017 Kingston College Corporation meeting also recorded that the value of South Thames College site was £27m.</p> <p>Mr Cheetham reported a slight disparity between the minutes of the June 2019 F, P &amp; R and Audit Committee meetings about what each committee was told about the level of certainty as to whether impairment would be required.</p> <p>The Review concluded that there was a well-reasoned argument for impairment and it had been appropriate to backdate that as a prior year adjustment.</p> <p>The Review identified discussions between management and the external auditors, and subsequently with the FPR and Audit committees, that there was an implicit assumption, that because the valuation received by the former South Thames College in May 2017 was materially different from the net book value of the building, there was a need to make an impairment adjustment. The review identified that there was not any discussion around an alternative approach, as allowed for under FRS102 and the F&amp;HE SORP, to use depreciated replacement cost as an alternative method to assess value in use, which would then be the basis against which to test whether there had been an impairment compared to the net book value.</p> <p>The 2017 valuation report was presented at a meeting of the transition Board / management team prior to the external audit of the 2016/17 accounts occurring, but such records as are available from the former South Thames College are silent as to whether the issue of impairment was ever raised as a result of this valuation being received, or if so, how it was resolved. While the valuation report stated a market value of £27m, it also noted that the replacement cost would be c£90m, far closer to the then reported net book value. The report concluded that there was no clear basis for determining whether there should, or should not, have been an impairment of the Wandsworth campus included in the 2016/17 financial statements of South Thames College at that time.</p> <p>The information provided to the Audit and FPR meetings in November 2019 in relation to the impairment /rationale for it being treated as a prior year adjustment was clear, backed up by</p>

<p>5.1.7</p> <p>5.1.8</p> <p>5.1.9</p> <p>5.1.10</p> <p>5.1.11</p>	<p>rational argument, and supported by the external auditors;</p> <p>The approach currently adopted by STCG to the review of the draft financial statements, splitting the role between FPR and Audit committees is very common and can be very effective. The review suggested that there is scope for greater clarity as to these arrangements within the respective committees' Terms of Reference.</p> <p>Based on ESFA's standard funding agreement terms, the auditors are not aware of any criteria which could be affected by the impairment of fixed assets so long as the solvency of the college is unaffected and there is no issue with the safeguarding of assets. The only circumstances in which the impairment might lead to an ESFA intervention derives from the option which ESFA give themselves following their regular risk reviews of institutions to take action "proportionate to the risk...at the discretion of the territorial ESFA deputy director." However, the Committee received and reviewed the exchange of emails with the ESFA bringing the impairment to their attention together with a copy of the notification of this to the OFS as a Reportable Event. No intended action has been notified to the Group by either body in response and the impairment of net assets has had no impact on the Financial Health rating for the Group.</p> <p>There followed a discussion of the extent to which management had drawn to the attention of the Audit Committee the size of the likely impairment at the June 2019 Audit Committee meeting. The Finance Director reminded the committee that Mr Ware had asked about this at the meeting and full details had been provided but that this was not recorded in the minutes. There was some concern expressed about this important omission from the June 2019 Audit Committee Minutes and that in future committee members should highlight or correct the minutes to record any significant items or omissions. <i>[Subsequent clarification] The Deputy CEO acted as minute-taker for the June 2019 Audit Committee meeting in the absence of the Head of Governance due to a family emergency.</i></p> <p>The Review concluded with a number of recommendations including:</p> <ul style="list-style-type: none"> <li>• Recommendations for revising STCG's procedures in relation to the impairment of fixed assets (Page 6 of the Review);</li> <li>• Recommendations for reviewing the Terms of Reference for the Audit and FP &amp; R Committees to provide greater clarity in relation to their respective roles in relation to the review of the draft financial statements including consideration of holding a joint meeting in November.</li> </ul> <p>The recommendations will be implemented by the Group. The Committee concluded that no further action is needed.</p>
<p>5.2</p> <p>5.2.1</p> <p>5.2.2</p> <p>5.2.3</p>	<p><b>Internal Audit Report Risk Management</b></p> <p>Mr Cheetham presented the report confirming that the committee can take the highest level of assurance (substantial assurance) in relation to this- (the report to be amended to show substantial assurance).</p> <p>The committee noted the following three low priority recommendations:</p> <ol style="list-style-type: none"> <li>1. Based upon advice from the Audit Committee the Corporation should determine the general risk appetite for each risk area identified on the Board Assurance Dashboard at least annually.</li> <li>2. The Board Assurance and Risk Management Policy does not record the risk owner.</li> <li>3. The risk register does not record agreed completion dates recorded for all actions.</li> </ol> <p>1. Members discussed how the Corporation should determine risk appetite and agreed that this should be considered as part of the Risk Register review meeting for the Corporation and Audit Committee on 7 July 2020. Mr Cheetham suggested possible ways of looking at</p>

	<p>risk appetite including:</p> <ul style="list-style-type: none"> <li>To review this for every risk on the risk register on a risk by risk basis;</li> <li>To group the risks into types of risks and review the risk appetite for these groups;</li> <li>To relate the risks to strategic decisions and review the risk appetite on that basis.</li> </ul> <p>2. Members asked when the Board Assurance and Risk Management Policy will be revised. The Deputy CEO advised that the intention was that it would now be available at the June 2020 meeting in preparation for the new year rather than change the position at this stage of the year.</p>
<p>5.3</p> <p>5.3.1</p> <p>5.3.2</p> <p>5.3.4</p>	<p><b>Internal Audit Report HE Office for students</b></p> <p>Mr Cheetham presented the report confirming that the committee can take the highest level of assurance (substantial assurance) in relation to this- report conclusion below:</p> <div data-bbox="555 546 1273 819" style="border: 1px solid black; padding: 5px;"> <p><b>Internal audit opinion:</b></p> <p>Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively.</p>  </div> <p>The committee noted that there was just one low risk recommendation (this will be corrected in the report from in error being shown as a medium risk):</p> <ul style="list-style-type: none"> <li>The key data required for the HESSES / HEIFES survey is only provided once a year.</li> </ul> <p>In future Course module student enrolment information will be requested by MIS at the start of each academic year and every term from curriculum team leaders.</p>
<p>5.4</p> <p>5.4.1</p> <p>5.4.2</p> <p>5.4.3</p>	<p><b>Internal Audit Report Payroll</b></p> <p>Mr Cheetham presented the report confirming that the level of assurance is amber / green with the conclusion below that the board can take reasonable assurance about these controls:</p> <div data-bbox="319 1326 1516 1527" style="border: 1px solid black; padding: 5px;"> <p><b>Internal audit opinion:</b></p> <p>Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage financial reporting from the payroll function are suitably designed, consistently applied. However, we have identified issues that that need to be addressed in order to ensure that the control framework is effective in managing this area.</p>  </div> <p>The committee noted low level recommendations and management action proposed in response:</p> <ol style="list-style-type: none"> <li>The payroll team will ensure that the process of verification used by all staff within the department is consistently applied. Evidence of verification will be kept to maintain an audit trail. Segregation of duties is maintained throughout all key processes.</li> <li>An action plan will be devised to address the timeliness of management authorisation of Hourly Paid Staff. Emphasis will be placed on monitoring those who are persistently late in submitting/authorising claims.</li> <li>Management will investigate the reporting capability of Cascade in order for it to be efficient.</li> </ol> <p>The Committee asked whether management foresee any problems in implementing these recommendations. The Deputy CEO thought not - when the College is operating normally. Arrangements are in place for all staff to be paid during the College closure.</p>

5.5	<b>Internal Audit Report Apprentices</b>
5.5.1	Mr Cheetham prefaced this report by reminding the committee that it is extremely difficult for colleges to get apprenticeship paperwork and requirements correct. Whilst the audit found that curriculum areas are aware of the key issues around apprenticeships, both relating to the requirements of the funding rules and internal processes, the audit found that practice was inconsistent between curriculum areas. In particular, there is no consistent process for planning and monitoring the delivery of the 20% off the job training requirement.
5.5.2	<p>The report made two high and two medium priority recommendations.</p> <ol style="list-style-type: none"> <li>1. High priority: The audit found that there was no cross College monitoring process in place for planning and monitoring the delivery of the 20% off the job training requirement. Without central, regular, monitoring of off the job hours there is a risk that the College will not be able to evidence delivery of this and therefore may be at risk of clawback of all related funding (£2.26m) in the event of a funding audit.</li> <li>2. High priority The College has developed a template annex to the Commitment statement to detail planned off the job hours to ensure these meet the minimum 20% requirement. However, a significant number of forms are still outstanding from curriculum areas (Tooting: 40% completion, Carshalton: 22% completion, Kingston: 65% completion). This may lead to additional work in planning apprenticeships, errors in the calculation of off the job hours or insufficient delivery of off the job hours.</li> <li>3. Medium priority 127 learners have end dates in prior years, including four dating back to 2016/17. The main reasons were: <ul style="list-style-type: none"> <li>• Learners unable to complete their apprenticeship due to not completing the required English and/or Maths.</li> <li>• Subcontracted learners not making expected progress on their apprenticeship.</li> </ul> Where the College is delivering to learners beyond their planned end date it will not receive any further funding until/unless the learner completes.</li> <li>4. Medium priority: The College has redesigned a number of its forms and is in the process of getting learner files brought up to date to be fully compliant. At the time of the audit only 20% of learner files from prior years were up to date putting the College at risk of claw back in the event of a funding audit.</li> </ol>
5.5.3	Members asked about progress to implement these recommendations made since the audit. The Director MIS updated the committee on good progress being made at Kingston College where 70-80% is complete. However, South Thames and Carshalton Colleges are some way behind. The intention is to move all the data to one central system, PICS, by the end of the current academic year. The Committee asked about progress and the Director MIS reported that this is a two phase process and the College plans to move soon to Phase 2.
5.5.4	The Committee suggested that staff use the opportunity presented by downtime when the college is closed to complete apprenticeship paperwork and evidence. The Director MIS confirmed that this opportunity had been discussed with College Principals.
5.5.5	The Deputy CEO confirmed that the College is disappointed with the lack of progress made to date but reminded the committee that the regulatory requirements surrounding apprenticeship provision is particularly onerous and that this represents less than 5% of the Group's overall income.
5.5.6	Members asked for confirmation that Learner Numbers and apprenticeships will be revisited by the Internal Audit Service next year and DCEO confirmed that the recommended actions will be monitored on the Audit Tracker as well as the annual IAS Follow up Audit. When discussing the IA plan for 2020-21 progress would be considered and if necessary further audit work would be included.

5.5.7	The Committee asked for more detail to be added to the Tracker Report to highlight percentages of paperwork completed, by college and showing the deadlines for completion.
5.6 5.6.1 5.6.2	<p><b>Internal Audit Report Key Financial Controls</b></p> <p>Mr Cheetham presented the report confirming that the committee can take the highest level of assurance (substantial assurance) in relation to this- report conclusion below:</p> <div data-bbox="560 309 1273 577" style="border: 1px solid black; padding: 5px;"> <p><b>Internal audit opinion:</b></p> <p>Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified area are suitably designed, consistently applied and operating effectively.</p>  </div> <p>The committee noted that there was just one low priority recommendation:</p> <ul style="list-style-type: none"> <li>An insurance policy is in place at the college which covers cash received into the College up to a specified limit. Management will update the insurance policy to increase the limit for cash in the safe to £20k during the enrolment period.</li> </ul>
5.7	It was <b>resolved</b> to recommend the five Internal Audit Reports to the Corporation.
6. 6.1.1 6.1.2 6.1.3 6.1.4	<p><b>BOARD ASSURANCE AND RISK MANAGEMENT</b></p> <p>The Deputy CEO presented the Board Assurance framework and Group Risk Register.</p> <p>The specific risk delegated to the Audit Committee is Risk 17: 'Failure to comply with the procedures and regulations connected to learner funding as set out by each funding body including the utilisation of expected compliance processes such as PDSAT.' Members discussed the mitigating action: "Report to Audit Committee on controls and process to ensure compliance with each funding body." noting that the Director of MIS made a presentation on controls and processes to the November 2019 Audit Committee.</p> <p>The Committee was satisfied that the risk level for this risk was correct and that sufficient controls and / or actions are being taken to manage these risks.</p> <p>It was <b>resolved</b> to note the Report.</p>
6.2 6.2.1 6.2.2 6.2.3	<p><b>REPORTS FROM CORPORATION COMMITTEES UNDER BOARD ASSURANCE FRAMEWORK</b></p> <p>The Head of Governance presented a report from the Corporation Committees with extracts from their minutes this term in relation to their review of the risks delegated to them. The committee reviewed the assurance provided by each committee in relation to the risks delegated to them.</p> <p>Each Committee was satisfied that the appropriate assessment had been made apart from the Search and Governance Committee which deferred their assessment to next term as they felt that the data provided to them had been out of date.</p> <p>Mr Ware asked about the reference in the Risk Register to some Personal Emergency Evacuation Plans not having been completed. The Deputy CEO assured the committee that the PEEPs are in place but there is some inconsistency about where these are kept – within schools rather than also being kept centrally. This is now being addressed by a recently appointed Assistant Principal.</p>

6.2.4	The Committee noted new risk 21 about coronavirus and asked about the success of business continuity planning since the college closure in the last week. The Deputy CEO confirmed that business continuity had been planned on the likelihood of just one college having to close but that so far in the circumstances everything had been working relatively smoothly during the closure with staff able to engage with and develop and share ways of working with learners, so as to best suit learners' needs.
6.2.5	After discussion it was <b>resolved</b> to recommend the Risk Register, which should include updated information for the Search and Governance Committee's risk, for approval to the Corporation.
<b>7.</b>	<b>FRAUD REGISTER</b>
7.1.1	The Committee received the Fraud Register which reported that no instances of fraud have been identified since the last meeting of the Audit Committee.
7.1.2	The report included a letter from ESFA requesting information relating to a national investigation into an organisation that South Thames College subcontracted funding to prior to merger. The Group has provided ESFA with the required information. Members asked whether the organisation did a significant level of subcontracting and whether this should be added to the risk register. The Director MIS confirmed that this could be up to £0.5m over a three-year period but the Deputy CEO did not think at the present time that there was any risk for the Group.
7.1.3	It was <b>RESOLVED</b> to note the Fraud Register
<b>8.</b>	<b>WHISTLEBLOWING REGISTER</b>
8.1.1	The Committee received the Whistleblowing Register which reported that no whistleblowing reports have been received since the last meeting of the Audit Committee.
8.1.2	It was <b>RESOLVED</b> to note the Whistleblowing Register report
<b>9.</b>	<p>The next meeting will take place on Thursday 18 June 2020 @ 6:30pm at South Thames College, Wandsworth or remotely.</p> <p>The additional Risk Register review meeting for this Committee and the Corporation will take place at 6.00pm on Tuesday 7 July at Carshalton College or remotely.</p> <p>The meeting closed at 7:58 pm.</p> <p>Signed: .....Date:.....</p>

Action points		Responsib le	Deadline	Signed off
<b>From this meeting</b>				
1	More detail about apprenticeship paperwork completion to be included on Tracker Reports	DCEO / Director MIS	June 2020	
2	Revised Board Assurance and Risk Management Policy to go to June Audit Committee	DCEO	June 2020	See Agenda Item 7.1
3	Revise STCG's procedures in relation to the impairment of fixed assets (Page 6 of Item 5.1);	HoG	June 2020	
4	Review Terms of Reference for the Audit and FP & R Committees re their roles in relation to the review of the draft financial statements and consider holding November meeting as a joint meeting	HoG	June 2020	