MINUTES OF A MEETING OF THE AUDIT COMMITTEE

Monday 11th June 2018 at 6pm - Board Room - Hinckley Campus

Present:	Mr Martin Cooke, Mrs Melanie Proffitt and Mr Anil Majithia (Chair)
In attendance:	Mrs N Coombe (Grant Thornton), Mr David Evans (GDES), Ms Julie Lennon (Moore Stephens), Mrs Rachel Marshall (Clerk) and Mr David Poole (EDFR)

1. Routine and Standing Items

1.1 Apologies for Absence

Apologies for absence were received from Dr Paul Cashian, Mr Bill Devitt (Grant Thornton) and Mr Bill Mitchell (Moore Stephens).

1.2 Declarations of Interest

No declarations of interest were made.

1.3 The Minutes of the Last Meeting

The minutes of a meeting held on Monday 5th March 2018 were approved. (Proposer: Martin Cooke; seconder: Anil Majithia).

Schedule of Actions

See the attached Schedule.

i.   Action 30 - Members had not been sent an email confirming all GDPR implementation actions were in place; however an update on the position was being given by Mr Evans at agenda item 2.1 which would confirm that implementation was complete.

Matters Arising.

There were no matters arising.

2. Risk Management

2.1 Risk Owner Presentation: GDPR Implementation - Project Risks

Anil Majithia welcomed David Evans to the meeting.

David Evans provided the following overview:

i.   An overview of the implementation project was provided together with the project action plan. A number of actions, which were not critical to the implementation, were ongoing and continuous, including training and obtaining relevant consents.

ii. Risks arising from the introduction of GDPR were highlighted together with the implications of those risks.

iii. The causes of data breaches were identified.

iv. Specific risks relating to the implementation project were identified and associated risk mitigation activities were set out.

v.   An explanation of responses the College would make where there were limited or no mitigating actions possible was then presented.

Members interrogated the information provided:

i.   What was the biggest risk the College faced in this area over the next 6 months?

David Evans explained that the College would not be in the Information Commissioner's Office 'line of sight' as it didn't harvest data as other organisations did; consequently the biggest risk was a breach caused by human error or deliberate action.

ii. How was this risk being mitigated?

David Evans outlined the training plans in place for existing and any new staff and approval processes for the release of data, defined in special categories (i.e. protected characteristics).

Raj Joshi highlighted that online training would be delivered to all existing staff at the start of the academic year in line with the current suite of on-line training which included safeguarding and Prevent. Training for new members of staff would either be online or within a documentation pack provided at induction.

iii. What policies would be in place for the use of staff laptops?

David Evans confirmed that laptops would be encrypted and the use of memory sticks prohibited unless sticks were encrypted.

iv. How was email security being assured?

David Evans highlighted that the IT Security Policy dealt with these issues and staff responsibilities.

Members thanked David Evans for his presentation and asked for an update to be provided in 6 months' time. **ACTION 35 GDES**

3. Audit Matters

3.3 Deep Dive Data Analytics Action Plan

David Evans presented the data analytics action plan which had been developed in light of the outcomes from the deep dive presented to the Committee in March 2018.

Members raised the following challenges:

i. The deep dive had identified a fundamental issue around the approach to and processes associated with the delivery of projects. What was the position now?

David Evans explained that a new framework for curriculum development had just been implemented. Previous development specifications had been very vague which had caused problems. A dedicated system analyst role was now in place to conduct a feasibility studies and develop specifications before a start was made on a required 'product'. 'User acceptance' testing before a product was released had also been introduced.

ii. The deep dive had indicated a lack of project management discipline.

David Evans explained that a new approach had been taken with the instigation of a service desk and ticketing system, as well as Executive team sign off and oversight of projects. It was essential that effective project management was in place for all projects, even small ones. Accountability for a project should go back to the source owner to solve any issues.

Members indicated that the action plan didn't appear to cover this particular issue which had been identified in the deep dive report and asked David Evans to come back on this matter. **ACTION 36 GDES**

Members also highlighted that they were happy with the responses to issues raised about data integrity and warehousing.

iii. Were there any business requirements which had not yet been met?

David Poole stated that consideration was being given to the development of a suitable infrastructure for in-house service and to maximise capability.

iv.   What safeguards were in place to ensure the Box wasn't put online and breach GDPR requirements?

David Evans confirmed that the Box was published on a proxy server and sat behind a firewall. Consequently it was very secure and there were no keys available to assist decryption of the database. This issue had been reviewed during the deep dive by a specialist who was very knowledgeable and experienced.

v.   Was a full disaster recovery plan in place for the Box?

David Evans confirmed that there was and outlined the safeguards and contingency plans in place.

vi.   Was the IT budget sufficient?

David Evans stated that the IT strategy had been developed with a number of different layers. Realistically it would take several years to achieve the ideal position as funding was not currently available but situational change were looked at annually. It was however, not always the case that the replacement of equipment would be on a 'like for like' basis. The Team was continually looking at different and new technological means to deliver teaching and learning.

David Poole confirmed that it was now easier to identify priorities and move forward.

Following discussion, Members received the paper.

(David Evans left the meeting at 6.35pm)

2.   Risk Management

2.2   Risk Report and Management Activity Update

David Poole introduced the paper presenting the risk report for 2017/8 which contained 27 risks (a new risk relating to disaster recovery and the potential loss of date had been included). Of the 27 risks, 23 had reached their year-end target rating or were just below it. The risk report presented 6 high risks, 17 medium risks and 4 low risks.

Members were asked to note the following matters:

i.   Risk 2 had increased from a medium to a high risk due to forecast 2 highlighting a number of seriously underperforming income streams. This had been reported to the Executive and the Corporation. An action plan to mitigate the deficit state was now in place and was being reviewed on a daily and weekly basis.

ii.   Risk 8 had also increased as collaboration with Stephenson College was no longer possible.

iii.   Risk 11 had been upgraded as ESF contracts had not been delivered. Sub-contracting was currently being used to deliver alternative income.

iv.   Risk 12 had been downgraded due to the mitigating actions that were taking place as previously outlined by David Evans.

Members interrogated the risk report, raising the following matters:

i.   If Risk 2 materialised it would become an issue. Did the College operate an issues list?

David Poole confirmed that the College did not have an issues list at the current time. Risk 2 had not yet materialised, although it was anticipated that the year-end forecast would not be achieved.

ii.   The actual impact of Risk 8 was debatable.

iii.   Should risk 11 be left on the register if there was no impact arising?

David Poole explained that he had left the risk on the register to enable him to report on it. The Committee would receive the final report on the risk register at its meeting in October 2018 and the risk would be closed off at that point in time.

Members went on to discuss the following points:

i.   Concern was expressed about a number of actions were deadline dates were delayed. It was agreed that a baseline date should be highlighted and delays would to be tracked in updates. **ACTION 37 EDFR**

ii.   Where mitigating actions deadlines were missed risks could become 'issues' of might remain risks with an increased RAG status. Thought was given as to how these impacts might be recorded within the risk report; however on balance it was agreed that this matters should be monitored in line with Action 37 for the time being.

Following discussion, Members received the risk report and agreed the recommendation that the high and medium risks should be presented the Corporation.

3.   Audit Matters

3. 1   Audit Recommendation Tracker and IAS Follow Up

David Poole introduced the paper which indicated the progress being made to implement recommendations arising from internal audits. Moore Stephens reviewed the recommendations to provide the Committee with assurance that implementation was effective and to challenge, where relevant, any decisions by management not to implement a recommendation.

Ms Lennon provided the following update:

i.   Out of 20 recommendations, 13 were now fully implemented, 6 was on-going and 1 would not be implemented.

ii.   2 recommendations arose from an HR audit in 2014 and 1 from a General IT Review, also in 2014. The other 17 recommendations arose from audits undertaken in the current academic year.

iii. Significant work had taken place to implement the recommendations and the College was making good progress.

Members raised the point that three quarters of the recommendations had missed their target completion dates. It was essential for the Committee to be able to see where targets were being adhered to or missed and what the reasons were for missed target dates.

Members discussed this issue and agreed that realistic targets should be set in the first place but where they were missed, an explanation should be provided. If the reason for missing the target was due to a lack of resource, this was a matter the Committee could feedback to the Corporation for further discussion. It was essential that there was an effective process around this area and someone was identified who was able to determine priorities. **ACTION 37 EDFR**

Following discussion, Members received the paper commenting that whilst there were no specific concerns, it was essential to see baseline completion dates for the Committee to monitor against and a mechanism for setting priorities.

3.2   Internal Audit Compliance Reports:

3.2.1   Curriculum Planning and Student Recruitment

David Poole introduced the paper which provided an overall assessment of green-amber. The assessment was based on a good control framework being in place, although some minor weakness had been identified which could put the achievement of business

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objectives at risk. 3 medium level recommendations had been made which management had accepted and target dates for completion had been set.

Members indicated that it was essential to target the recruitment of existing students onto different or higher level qualifications, as well as providing clarity around student pipelines as raised at the recent Strategy Day.

David Poole confirmed that a progression project was being implemented to achieve this activity and outlined steps that were currently being undertaken. In respect of the pipeline issue, targets were in place and there was an expectation as to student numbers based on the current number of students and which of them was progressing into 2018/19. Work was then taking place to review the market place and demographics to identify potential students. The College also needed to increase the number of students who attracted higher funding and to identify companies for apprenticeships, A customer management system was now in place to manage employer relationships and develop pipelines whilst enabling the College to quantify numbers.

3.3.2 **Core Financial Systems**

David Poole introduced the paper which provided an overall assessment of green. The assessment was based on a sound control framework being in place to achieve system objectives and the controls to manage the risks audited, were being consistently applied. Any weaknesses were relatively small or related to attaining higher or best practice standards. 4 recommendations had been made, of which 3 were low level and 1 was a medium level. Management had accepted all recommendations and set target dates for completion.

Ms Lennon confirmed that she had been very happy with what she had seen and the minor recommendations had related to access to the safe; these had been implemented immediately.

Members indicated that they were very pleased with the outcomes from both audits.

3.4 **Annual Internal Audit Plan - Progress Update**

David Poole introduced the paper which showed that the internal audit plan for 2017/18 was now complete.

3.5 **Draft Internal Audit Strategy 2018/21 and Internal Audit Plan 2018/19**

David Poole introduced the paper which provided an outline of the proposed draft internal audit strategy for 2018/21 and internal audit plan for 2018/19. He explained that he would work with Moore Stephens to provide more information about the individual audits, including approximate dates and bullet points on the scopes, before he asked Members to recommend it to the Corporation. **ACTION 38 EDFR**

Members confirmed this action.

3.6 **Presentation of External Audit Plan 2017/18 including Briefing on Updates to Accounting and Auditing Standards and Guidelines**

Nicola Coombe introduced the External Audit Plan for 2017/18, providing the following overview:

   i.   The Audit Plan presented an overview of the planned scope and timing of the audit for the benefit of Members. It had also been discussed with management.

   ii. The auditing team had met to discuss where the focus of the audit should be, based on the team's knowledge of the College and review of relevant paperwork. Page 5 provided a summary of this understanding of the business, which was a snap shot in time. This understanding had changed slightly although the change didn't require the Team to change its activity.

iii. The report related only to the matters which had come to Grant Thornton's attention and which needed to be reported to the Committee as part of the audit planning process.

iv. Page 6 outlined the serious risks that the audit team had identified as requiring special audit consideration and included fraudulent transactions and the potential for management to over-ride controls.

v. Paged 7 and 8 highlighted three reasonably possible risks i.e. those risks identified as an area where the likelihood of material misstatement couldn't be reduced to a remote possibility. These risks included grant income, pay roll and operating expenses.

vi. The team would use the work of the internal audit service to inform their own risk assessment.

vii. Pages 9-11 outlined other matters such as 'going concern' and pension schemes.

viii. Audit fees and related matters were set out on page 13.

ix. Page 14 presented a series of non-audit services which Grant Thornton had undertaken for the College. Grant Thornton would always assure the College as well as itself, that it was able to maintain its independence as an external adult service. This list needed to be updated in light of the information presented in the paper for agenda item 3.7.

Members raised the following questions:

i. Was there anything different from the previous year that the team had flagged?

Nicola Coombe highlighted the MIRA Technology Institute work and the fact that the College was considering disposing of part of its estate (should this take place before the end of the relevant period) and sub-contracting.

ii. How significant were the VAT issues highlighted on page 21?

David Poole explained that the issue had been exposed in an article in FE Weekly and related to the fact HMRC was targeting erroneous reporting in the sector. He went on to explain the VAT position in the FE sector.

iii. How high was the risk of the College having to pay additional VAT in this instance?

David Poole confirmed that advice had been received, all Colleges had agreed that the sector treatment of VAT was correct and therefore he viewed the risk as negligible.

iv. Were there any issues which had been picked up at other colleges that North Warwickshire and South Leicestershire College should be aware of?

Nicola Coombe highlighted that with the exception of some changes in the accounting direction there was nothing of significance to be aware of.

v. Did Grant Thornton use software to support its auditing processes?

Nicola Coombe confirmed that it did.

vi. Were there agreements between the College and Grant Thornton about disclose and the implications of GDPR?

Nicola Coombe confirmed that the engagement letter now covered all relevant GDPR issues.

Following discussion, Members received the External Audit Plan for 2017/18.

3.7 **Report on Additional Services Provided During 2017/18**

David Poole introduced the paper and highlighted the additional services provided by Moore Stephens and Grant Thornton confirming the preservation of the independence and objectivity of both firms' auditing teams.

Nicola Coombe also explained the rigorous internal procedure Grant Thornton went through to ensure that there were no conflicts and to safeguard the independence of the auditing team. This also included rotation requirements for members of auditing teams.

Following discussion, Members received the paper.

4. Internal Control

4.1 Update on Actions from the Code of Good Governance for English Colleges Compliance Review

The Clerk introduced the paper which highlighted ongoing work to implement improvement actions identified during the review and an action arising from the Governance Effectiveness Review. The Committee would receive a final progress update at the next meeting.

Following discussion, Members received the paper.

4.2 Financial Regulations

Mr Poole introduced the paper, explaining that he had undertaken his annual review of the Financial Regulations and had made one change to debt write-off limits on the following basis:

> "Executive Director Finance & Risk limit increased from £1k to £5k; the Chief Executive limit increased from £5k to £10k and the Corporation limit has been increased from £5k to £10k and above."

Following discussion, Directors agreed to recommend the reviewed Financial Regulations to the Corporation. (Proposer: Melanie Proffitt; seconder: Martin Cooke)

4.3 Definition and Categorisation of 'RAG' Status

The Clerk introduced the paper which had been written at the request of the Committee Chair.

Anil Majithia explained that the College operated a number of different documents which used different interpretations of RAG status. He had therefore asked for some clarity in this area in terms of clear definitions to provide a common understanding for the Executive and Corporation Members.

Following discussions, Members indicated that they were content with the report and it was agreed that relevant definitions would be applied as a 'key' to documents which used a RAG rating. **ACTION 39 EDFR**

Anil Majithia then reminded Members that this was Melanie Proffitt's last committee meeting as she was stepping down at the end of the academic year. Anil Majithia thanked Melanie Proffitt, on behalf of the Corporation, for all her work and her contribution as committee chair.

Melanie Proffitt thanked Anil Majithia and stated how much she had enjoyed Audit Committee work and working with fellow Members, staff and auditors.

5. Other Matters

5.1 Release of Papers

Following discussion, Members agreed the release of all papers with the exception of the confidential minutes from the meeting on Monday 5th March 2018.

5.2 **Date of the Next Meeting**

The Clerk highlighted that Members would be informed of the date of the next meeting once the annual calendar of meetings for 2018/19 had been finalised.

(Julie Lennon to leave the meeting at 8.11pm)

Members then considered matters on the confidential agenda.

The meeting closed at 8.20pm

Signed: ……………………………………………………… (Chair)   Date: ………………………