

**AUDIT COMMITTEE MEETING
MINUTES PART 1**

Date: Wednesday 06 December 2018
Venue: Tower Hamlets Campus – G20
Time: 8:30am

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| Chair | Sue Williams |
| Corporation Members | Gareth Wall, John Houston, |
| Co-opted Member | Neil Yeomans, |
| Auditors | Internal & External Financial Statements Auditors (Scrutton Bland/KPMG/McIntyre Hudson) |
| Officers | Gerry McDonald: Group Principal & CEO Roger Cottam: Deputy CEO Suri Araniyasundaran: Deputy CEO Designate |
| Director of Governance | Fiona Chalk |

| Item No | Item of business |
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| 1. | Chair's Welcome & Opening Remarks The Chair welcomed members |
| 2. | Apologies For Absence Paul Winrow |
| 3. | Declaration of Interests None received. |
| 4. | Minutes of the Last Meeting Held on 19th June 2018 The minutes were signed as a true and accurate recording of the meeting. |
| 5. | Matters Arising and Action Points from the Meeting The review of the MIS system can now commence as the year-end work is complete. Governors asked for an update on this to come to the next meeting. |

ITEMS FOR DISCUSSION, DECISION OR ACTION

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| 6. | <p>YEAR END 2017-18 - EFC Governors noted that the EFC Corporation has dissolved, so NCC take on EFC's responsibilities, one of which is to sign off the year end accounts. Both the IA and EA report to NCC's Board to give sufficient assurance to Corporation for them to sign of the accounts.</p> <p>a. Internal Audit Annual Report Scrutton Bland have raised two concerns, one around internal payments authorisation processes which was resolved in year, and the second being H&S, which will be taken under NCC controls going forward. Governors questioned the overall opinion, as the report states there are some weaknesses. It was noted that a traffic light system is used to highlight weaknesses and that those weaknesses have been highlighted, discussed and resolved. Therefore, the overall opinion is adequate. From NCC Governance assurance point of view, the Auditors confirmed that management have rectified the weaknesses in the internal control systems and addressed them. The systems could have allowed a possible fraud to happen, but this was found, addressed and rectified. If it had not been recognised and addressed, that would indicate that the internal control system is not effective. 5 reviews were carried out, 1 with substantial assurance, 3 reasonable assurance and 1 with limited, which pertains to the H&S issue.</p> <p>b. Financial Statements and External Audit Management Letter The Deputy CEO updated members as follows: It was noted Epping Forest College (EFC) was required to produce financial statements to 31 July 2018 (the date of merger), and it is NCC's responsibility to sign these off.</p> |
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| | <p>KMPG highlighted the following:</p> <ul style="list-style-type: none"> • Land is being held for resale and revaluation – the valuation numbers are deemed fair • £2.5m deficit • The pension scheme movement is usual • FRS102 adjustment 258 + 125 • Income reduced significantly from £14m to £10m. • Expenditure down by £1.3m, primarily due to staff savings • £36.9m on balance sheet • £33m fixed assets • Cash in bank has reduced • Bank loans – recognition on loans • Overall opinion of Financial Statements and Regularity is an unqualified opinion. • The auditors were noted as being independent. • £125,000 level of materiality. • They concur with the Corporate Governance statement. • No compromise in the key financial controls. • Financial Statements not completed on a going concern basis due to merger • No related party disclosures • Assets for re-sale of £9m were not sold and another £10m are up for resale this year. 12 months ago the college decided to sell one site, the Middle Site, so this value was moved to current assets. The intention to sell was deferred once EFC entered into merger talks. The college has now engaged Knight Frank to take both sites to sale in the new year. There is a revaluation exercise ongoing and this will be reflected in the statements. <p>c. Audit Committee Annual Report Based on the evidence that has been received, the committee is satisfied to make a recommendation to Corporation that the College has an adequate and effective framework for governance, risk management and control, and processes for the effective and efficient use of resources, the solvency of the institution and safeguarding of its assets.</p> <p>YEAR END 2017-18 - NCC</p> <p>d. Internal Audit Assignment Report The committee noted the report and the work done on outstanding audit recommendations, as detailed under 8.2.</p> <p>e. Internal Audit Annual Report TIAA is satisfied based on the work they have done in the areas reviewed during the year, that New City College has reasonable and effective risk management, control and governance processes in place. Also, there was evidence to support the College's achievement of value for money with regard to economy, efficiency or effectiveness of the systems reviewed. Governors questioned how, if TIAA only completed half their work, can they give an opinion on internal controls. It was noted that KPMG extended their remit to cover some of the outstanding work. They did additional work that was a more in depth audit than they would normally do. They extended their testing to cover areas of concern such as authorisation of invoice payments, staff expenses and the new payroll system. This additional work took 15-20 days. It was noted that there are no prescribed areas of regulation for internal audit any more, but areas raised as concerns and at risk, were covered to some degree by KPMG, and the report reflects this.</p> <p>f. Financial Statements and External Audit Management Letter & Regulatory Report The Deputy CEO updated members as follows: The final set of accounts are now with KPMG and will go out to Corporation today. The Audit is substantially complete, although it has not been an easy process due to issues arising from moving from 3 systems to 1 system in year, in addition to there being several staff changes. A Balance sheet review has been undertaken and now 18/19 is going forward on a sound basis.</p> |

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| | <p>KMPG highlighted the following:</p> <ul style="list-style-type: none"> • A lot of corporate knowledge disappeared in year which made things difficult. • Nothing at this stage to indicate that they will issue anything other than an unqualified opinion. • 3 potential significant risks identified – pension, revenue recognition and management override of controls. • Outstanding matters – trial balance is to be completed to ensure all items covered. • Pensions – actuaries used to make judgements and these assumptions are reviewed. Auditors have taken national assumptions as it's a national scheme. • Revenue recognition - on track to complete this and no adverse comments. • Regularity of spend is judged by the ESFA, who give assurance to the Auditors on funding regularity. • Management override of controls – no evidence of this found in the audit. • Draft accounts have been received on subsidiaries and auditors have given a group opinion and separate opinion on individual subsidiaries. Support letters will be given for the companies and this will be covered in the college accounts • Corporate governance statement and best value statements noted. • College is currently running two ledgers but in 2019 will move EFC onto the NCC system. Management advised that this needs to be planned carefully, and could be appropriate to do it at year end. • Recommendations from last year were discussed. These are being taken forward and ideally the student record system and finance system should be better alignment and interface closely. Governors noted that previously there were 3 systems, but now there is 1 system for both. Governors asked for a report to come to the March committee on how the above is going to be taken forward. • Independence of Auditors was noted. • Valuation of fixed assets took place 1996. Governors asked that this will be affected when EFC comes forward. Acquisitions require a fair value of assets. A DRC valuation is used in Education rather than open market value. There is no requirement to re-value, but will come under the disclosure policy. • After exceptional items, there will be a £478k surplus <p>Audit Committee Annual Report Based on the evidence that has been received, the committee is satisfied to make a recommendation to Corporation that the College has an adequate and effective framework for governance, risk management and control, and processes for the effective and efficient use of resources, the solvency of the institution and safeguarding of its assets.</p> <p>g. Annual Risk Management Report</p> <p>Governors noted the report for the year 2017/18 and the realignment of the risk register to the updated strategic objectives. Also, that there is a separate risk register for mergers and property development.</p> <p>h. Annual Whistleblowing Report Governors noted that there had been no qualified disclosures in the year ending 31 July 2018. Governors suggested that staff training on whistleblowing be considered, perhaps at induction. It was confirmed that safeguarding is not reported under whistleblowing as there is a separate procedure.</p> |
| 7. | <p>In Year Monitoring & Performance 2018/19</p> <p><u>Internal Audit Strategy & 2018/19 Plan</u> IAs have met with management and drafted an initial plan. They have started the follow up work on outstanding recommendations and will then review the plan. 16 audits are planned with 2 follow up pieces of work and will be continually reviewed. These audits have been formed by discussions with management and a review of the risk register.</p> <p>The summary of the work plan and indicative timings of work were noted. Governors noted that the audit mapping exercise was very useful.</p> |

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| | <p>Governors asked where the 105 days work is taken from as this seems low for an organisation of this size. The auditors advised that it is difficult to benchmark as there are not many colleges of this size. It was noted that in the audit tender process, no company came in at over 100 days. Management advised that the college now runs a single financial system, single student records system, so the work is more about volume now rather than complexity. There are 2nd and 3rd levels of assurance and there is an assurance map on this. Governors expressed concern that an audit of 3 days on one subject seems light. The auditors advised that these will be reviewed whilst undertaking the actual audit. Governors stated they want the area done to the depth required, regardless of whether the time is used or not, as the auditors are invaluable independent eyes and ears of what's happening in the college.</p> <p>It was resolved that 10 Contingency days to be added.</p> <p>Governors asked for a number to be added to the plan, so it can be cross-referenced to the risk register.</p> <p>It was noted from the plan, that some areas are hard risk areas and some areas are far more advisory work. Management will give further insight to Internal Auditors into which areas need deeper work. The scoping meetings are very important as they help determine the depth of the audits. Governors asked for feedback from IA at the March meeting as to how the process is progressing on days against plan. Governors stated it would also be helpful to look at a 3 year plan.</p> <p>The IAs were thanked for the work they have done in a short space of time.</p> <p>The Committee resolved to approve IA Plan for 2018/19.</p> <p><u>Implementation of Audit Recommendations</u> Management track all audit recommendations diligently but this has resulted in a large list. The IAs have reviewed them all and now there are only a few open pieces of work. Most relate to stabilisation of financial systems, this piece of work has quite a long way forward. 2 high priority recommendations have been identified within the 31 outstanding issues.</p> <p>Governors asked what the process was for closing off 50 outstanding items. The IAs had meetings with management responsible for each recommendation, undertook detailed transaction testing to form a conclusion, and also looked at evidence such as updated policies. Some actions have been superseded as they had moved on. The IAs advised that they have not done detailed testing of the ILR data, but there is a funding assurance audit in 18/19 which will revisit this area.</p> <p>Governors asked for all IA and EA outstanding recommendations to be added to the same register.</p> <p><u>Merger & Risk Management Report</u> 3 separate registers were noted - corporate, merger, and Poplar rebuild. NCC will be expected Ofsted after summer 2019, so this item rises up the risk register and becomes a key priority. Management advised that they will move the risk register onto the RSM tool rather than keeping it on a spreadsheet to share more dynamically and better management risk.</p> <p>Governors asked for commentary to be included on the assurance map as this will influence IA and give detail on where and why NCC are already assured.</p> <p><u>Business Continuity Policy</u> An area that needs work as there is no overarching business continuity plan. Management are currently using external consultant through NCC's insurers. They will identify significant possible incidents and the impact of these and then this will be turned into a policy and plan, so critical incidents can be managed efficiently. A progressive plan is required. Disaster recovery is part of this work, and the team are looking at NCC's reliance on its key systems and the parts that make up these systems, namely:</p> <ol style="list-style-type: none"> 1. Physical locations 2. IT 3. Staff |

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| | <p>Servers are all on different sites to help minimise risk, but these needs to be tested and incorporated into the plan.</p> <p>Governors asked if the college is making any plans for Brexit. Difficult to make plans with no assurance as to what the outcome may be. Some planning is being implemented: Staffing - amending HR systems to record staff at risks Students – started data collection so management know how many are not British nationals.</p> <p>Governors asked for a report to come to the next Audit committee on preparations for Brexit.</p> <p>Governors asked management to send out reports as they are ready to the Audit Committee prior to the next meeting.</p> |
| Internal & External Financial Statements Auditors (Scrutton Bland/KPMG/McIntyre Hudson) are asked to leave for this part of the Audit Committee Meeting | |
| 9. | <p>Confidential Minutes of the Last Meeting Held on 19th June 2018 The minutes were signed as a true and accurate record of the meeting</p> |
| 10. | <p>Matters Arising and Actions from the Meeting There were no matters arising.</p> |
| 11. | <p>AOB None.</p> |