

East Coast College Audit Committee Meeting

27th November 2018 at 5.00pm

Present:	Rob Evans (RE) Albert Cadmore (AC)	
In attendance:	Wendy Stanger (Director of Governance) Urmila Rasan (Interim Deputy Chief Executive) Stuart Rimmer (Principal) and Mike Burrows (Chair of Corporation). External Audit - Scrutton Bland and for L6FC RSM ECC Internal Audit – RSM	
Private Session	A private session was held with the internal and external auditors. RSM Internal Audit advised that they had no concerns to raise with the Committee. Scrutton Bland commented that ECC's finance team had been cooperative and the Audit had been a lot easier than they thought it would be given the previous issues.	
A/18/011/1	Membership, Apologies and Declarations of Interest	Action
	The Corporation Chair Mike Burrows and the Principal were invited by the Chair to attend the meeting and to take full part in the discussions. Apologies were received from David Carlin The Chair advised that Giles Kerkham would be joining the Committee as at 1.1.19 as an Associate Governor. His knowledge and experience would be a welcome addition to the committee. There were no declarations of interest.	
A/18/11/2	To approve the Minutes of the meeting of the Audit meeting held on 24 7 18 and any other matters raised previously not otherwise included in the Agenda	
	The minutes were agreed as a true record.	
A/18/11/3	To review the post-meeting action log	
	The post meeting action log was reviewed and noted where the item was on the agenda.	
A/18/11/4	Internal Audit Recommendations Action Plan Progress Review	
	The Interim Deputy Chief Executive presented the action plan which showed that the recommendations were complete. The action plan was produced following the Internal Audit Follow Up Audit which highlighted that the College had made little progress in implementing agreed actions. RSM Internal Audit commented that it was highlighted in 17/18 by their follow up audit that management tracking of audit recommendations was not taking place.	

	<p>The Follow Up Progress Audit in 18/19 found that the College had established an action implementation process.</p> <p>The Interim Deputy Chief Executive advised that an action tracker would be used to monitor implementation of internal audit and external audit management letter recommendations throughout the year and reported to each Audit Committee.</p> <p>The Principal commented that an action tracker would also monitor implementation of the FE Commissioners recommendations.</p>	
<p>A/18/11/5</p>	<p>Action Plan on Due Diligence and Management Letter Progress Review</p>	
	<p>The Interim Deputy Chief Executive presented the action plan. Following the Due Diligence (DD) reports a DD process action plan and an East Coast College undertaking action plan were completed both action plans have now been fully implemented. As was required by the Bank and TU additional due diligence has now commenced. Once this is complete the Bank will revise the covenants.</p> <p>Governors challenged what period the due diligence was reviewing and when the report would be completed. The Interim Deputy Chief Executive advised that this would be based on quarter 1 figures, which had already been submitted to the TU. The report is due 10/01/19.</p>	
<p>A/18/11/6</p>	<p>To review the Risk Register</p>	
	<p>The risk register was reviewed. Governors commented that the number of red risks was concerning and that it was a comprehensive register.</p> <p>WOM C&I1 – Governors noted that this risk was getting worse. The Director of Governance advised that the Finance and General Purposes committee had considered this risk and had set the Director of Business Development and Communications actions to try and rectify.</p> <p>IOB DFISIT12 – Governors commented that this was an area that OFTED had raised. The Principal advised that the KPIs are accurate and up-to-date but there is still work to be done to make their production automated.</p> <p>Governors commented that the risk register was not easily understood or read on the portal as there was too many columns included and this created a risk in itself. RSM advised that at other Colleges columns were omitted when presented to Governors to make the register simplified and easier to understand.</p> <p>Governors discussed how the register should be reviewed – highest risks, those that are red or those whose risk has increased. It was agreed that the audit committee needed to take an overview and ask all the other committees to review their registers and report to Audit any concerns.</p> <p>Governors agreed the following actions:</p> <ul style="list-style-type: none"> • Each Committee to review their risk register and report to the Audit Committee how it was reviewed, what their view of risk for their area is and any concerns regarding the management of risk. 	

A/18/11/7	Internal Audit Reports: <ol style="list-style-type: none"> 1. Revised Internal Audit Plan 2. Subcontracting 3. Follow Up Process 4. Progress Report 5. RSM Annual Internal Audit Report 	
<p>RSM Internal Auditor presented the reports.</p> <p>1. Revised Internal Audit Plan</p> <p>This had been revised following the Committees feedback at the last meeting. Governors considered the audit committee requirements as set out in section 4, that is:</p> <p>In approving the internal audit strategy, the committee is asked to consider the following:</p> <ul style="list-style-type: none"> • Is the audit committee satisfied that sufficient assurances are being received within our annual plan (as set out at appendix A) to monitor the organisation’s risk profile effectively? • Does the strategy for internal audit (as set out at appendix B) cover the organisation’s key risks as they are recognised by the audit committee? • Are the areas selected for coverage this coming year appropriate? • Is the audit committee content that the standards within the charter in appendix C are appropriate to monitor the performance of internal audit? <p>And agreed that these had been met by the revised plan.</p> <p>It was agreed that timings and scopes could be amended in conjunction with the senior team. The HE Recruitment audit needed to also consider the skills mix for the distinct processes. The Estates and Capital Planning needed to be mindful in scope and timing that the Estates Strategy was due to be reviewed.</p> <p>2. Subcontracting</p> <p>This was an advisory audit and made 6 advisory actions. The audit was based on ESFA guidance that had only just been published.</p> <p>Governors challenged that the actions identified were concerning and immediate action required. RSM advised that all the recommendations had been accepted by the College with immediate implementation dates and they were reassured that the College had responded appropriately.</p> <p>3. Follow Up Process Audit</p> <p>The objective of the review was to assess whether an accurate and robust process for tracking management actions from both internal audit and Ofsted reviews was in place. The conclusion was substantial assurance with 1 low no-compliance with controls action that was rectified prior to the audit being finalised.</p> <p>4. Progress Report</p> <p>The progress report set out progress and emerging issues in the sector update. It set out where we were with the audit plan and if there were any audits that may affect the annual opinion. An update of this is presented to each Audit Committee.</p>		

<p>5. RSM Annual Internal Audit Report</p> <p>The annual report sets out the audit findings for the year and the internal auditor’s annual opinion.</p> <p>Governors commented that the annual opinion was disappointing but not surprising given the issues that had been identified during the year. RSM noted that their annual report had been reflected in the Audit Committees Annual Report and that the College had responded rapidly to put processes in place with strong governance oversight.</p> <p>Governors commented that the report was a clear and helpful review of the year and thanked RSM for their work.</p> <p>The Committee resolved to note the report and the revised Audit Strategy,</p>	
<p>A/18/11/8.1</p>	<p>External Audit Reports - Year End East Coast College</p>
	<p>Scrutton Bland presented the year end accounts. She advised that the process had been smoother than anticipated given the previous issues and it was credit to the hard work of ECC’s finance team. The 2017 figures have been reset to an East Coast College one to allow comparison</p> <p>Discussion was held regarding the going concern statement to be included in the accounts. The Principal advised that the Bank and the Transaction Unit had agreed the merger on the basis that the due diligence actions would be completed at the end of calendar year 2018, with additional due diligence to be completed. Once the due diligence was completed the covenants would be re-set.</p> <p>The Interim Deputy Chief Executive advised that the current covenants will be technically breached in quarter 1 and 2 due to the change from a straight monthly budget profile to a more realistic one. The Bank were aware of the profiling change. The Interim Deputy Chief Executive advised that when the covenants are re-set the Bank have agreed to allow headroom to allow for the profiling.</p> <p>The Principal advised that the covenants were only measured formerly at the end of the year and the forecast showed that the College wouldn’t be in breach. He clarified that the covenant review was due to the merger not the technical breach. This was set out in the merger agreement letters from the Bank and the Transaction Unit. A copy of these approval letters would be sent to Scrutton Bland.</p> <p>Governors challenged if the profiling change would give a better understanding of what is a permanent variance and what is a timing issue. The Interim Deputy Chief Executive advised that the profiling would identify permanent variances and without the correct profiling targets could not be monitored accurately.</p> <p>The audit findings were discussed. The Interim Deputy Chief Executive advised that the recommendations would be included in the action log to ensure monitoring of completion.</p> <p>Governors challenged why other creditors and accruals had increased. Scrutton Bland advised that this included provisions for funding body clawbacks, unrecorded liabilities that have been identified during the year for which documentation was received late, and additional provision for merger costs.</p> <p>Scrutton Bland advised that the College was holding a suspense account balance as a provision in the balance sheet for unrecorded liabilities. They have confirmed</p>

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with management that it is likely that a significant amount of this will be required and therefore prudent.

The Director of Governance queried if the accrual included provision for the 'charity' funds from the previous Lowestoft and Great Yarmouth Colleges. The Interim Deputy Chief Executive confirmed that it did and that these would be re-instated and the process for award included in the compliance manual.

Governors challenged how long it was envisaged the provision would be required. The Interim Deputy Chief Executive advised that the issues should be resolved by the end of the 18/19 and Scrutton Bland advised that the risk would be reduced by the end of 18/19 and they would not expect therefore to see a provision.

The Director of Governance queried if the VAT registration had been changed to that of East Coast College. The Interim Deputy Chief Executive confirmed that it had been and a VAT review was also being carried out.

Governors challenged if the staff as a % of income was consistent with what they were seeing at other clients. Scrutton Bland advised that this figure was difficult to compare as each college would have different levels of subcontracting provision and contracted out services. The Principal advised that it was crude comparison but an important one as it helped understanding of staff costs and how we were using those resources to meet our strategic aims.

Governors challenged if the previously identified issues with the fixed asset register had been resolved. Scrutton Bland advised that considering what the College had inherited the register had been improved and they had carried out sample checks. The Interim Deputy Chief Executive advised that work was ongoing on the register and it would also be reviewed by the internal audit who would consider the process and carry out a larger test sample.

Scrutton Bland advised that there was not a signed deed of covenant in place in relation to LOWES. The Director of Governance advised that there was an unsigned one with a note in the minutes that it was to be signed but the signed one was not on record. A review of LOWES governance and remit was to be carried out to help ensure clarity of delivery and accounting and this would include the covenant.

Governors thanked the Interim Deputy Chief Executive and her finance team for the work on resolving the financial process issues and their work on the annual accounts and thanked Scrutton Bland for their work.

The Committee resolved to note the annual accounts and the management letter and as set out in their annual report confirm that they were assured that the financial processes were now robust for the accurate completion of these accounts.

A/18/11/8.2

External Audit Reports - Year End Lowestoft Sixth Form College

RSM External Auditors presented the accounts, these had been more difficult to complete this year as key personal were no longer employed by the College. No weaknesses had been found in the controls. The accounts were not on the basis of a going concern due to the merger. For 18/19 the opening balances to be used for L6FC can all be tracked back to the working papers. The governor attendance had now been received and the Director of Governance advised that this had been included in the Governor's papers. The merger accrual was being checked to

	<p>ensure that it was sufficient and had not been allowed for in East Coast College accounts.</p> <p>The Principal advised that the main late invoices that needed accruing were legal ones and the Director of Governance advised that these had been invoiced separately between ECC and L6FC.</p> <p>RSM advised that there was an accrual included for multi-use area (MUGA) and that this was based on the draft usage agreement. The college has not been charged for the use of MUGA since it was formed. There continues to be ongoing discussions with the local authority regarding a lease and the amount owed.</p> <p>The Principal advised that this was a risk to the College and needed to be resolved and was further complicated by the subcontracting arrangement that was in place. There was also an issue in ECC's accounts relating to a lease at Barnards Meadow. The Committee agreed to refer this issue to the Finance and General Purposes Committee and for the risk to be added to the Risk Register.</p> <p>Governors agreed the following actions:</p> <ul style="list-style-type: none"> • Lease of MUGA and rental of Barnards Meadow to be referred to the Finance and General Purposes Committee to receive a proposed resolution. • MUGA and Barnards Meadow lease risk to be added to risk register. 	
<p>A/18/11/9</p>	<p>Audit Committee Draft Annual Report</p>	
	<p>The Chair presented the Annual Report and thanked the Director of Governance for producing a comprehensive report. The Audit Committees opinion is that the adequacy and effectiveness of the assurance frameworks fell below what should be expected during 17/18. The Committee though was assured that actions taken meant that there was a robust control framework in place for 18/19.</p> <p>RSM Internal Audit commented that the report was factually correct and reflected their annual report and its conclusions. The Director of Governance advised that the RSM Internal Audit Annual report would be included in the report as an appendix when reported to Corporation.</p> <p>Governors discussed the concluding paragraph and it was agreed that "effective" would be changed to "robust" as the controls effectiveness had not yet been tested and made clear that the framework referred to is for 18/19.</p> <p>Governors agreed the following actions:</p> <ul style="list-style-type: none"> • Conclusion paragraph to be revised prior to submission to Corporation and agreed with the Chair. <p>The Committee agreed to recommend their annual report to the Corporation</p>	<p>WS</p>
<p>A/18/11/10</p>	<p>Board Assurance Model</p>	
	<p>The Interim Deputy Chief Executive presented the report. The model had been produced in conjunction with the Director of Governance. The model is supported by the business continuity plan, regularity proprietary and compliance manual and the risk policy.</p> <p>Governors challenged how they would be assured that it had been implemented. The Interim Deputy Chief Executive advised that it would be audited in the Risk and Governance Audit.</p>	

Governors agreed the following changes:

- FE Commissioner’s expectations to be re-written.
- HEFCE replace with Office for Students.
- Key plans and strategic hierarchy to have column headings
- P19 needs the correct committee titles and title for the diagram
- Scheme of delegation - annually approve the audited Financial Statements and Annual Report for the year ending 31 July – to be written with the different responsibilities of the Committees (i.e. F&GP recommends, Corporation approves, Audit considers the governance and controls).

The Committee welcomed the document and agreed that it could be used whilst it was being revised.

A/18/11/11

Review of Risk Register Format

The Interim Deputy Chief Executive presented the revised audit format example, which would form part of the Board Assurance Model. The proposal was that the risk register would be split into:

- Strategic
- Tactical and
- Operational.

Governors challenged who would be responsible for each risk level. The Interim Deputy Chief Executive advised that the Strategic would be Corporation, Tactical the Senior Leadership Group and Operational the middle managers.

Governors discussed how the Board should set the risk appetite. The strategic risk appetite needed to be set prior to the tactical and operational risk appetites. The Principal commented that the strategic risks needed to align to the Corporate aims.

The Director of Governance commented that the proposed format would allow the Audit Committee to drill down from the Strategic risk to its related tactical and operational risks. This had been noted as a requirement at previous Audit meetings. Committees would still receive their relevant parts of the risk register.

Governors discussed how the register would be presented, whether it should be ordered by top risks, risks that have worsened since the last review or risk appetite difference. It was agreed that a summary report would be required at the start of the register highlighting the changes since the last review.

Governors noted that there needed to be clarity of language, scoring and identification of risk. Risks should be an actual risk not a threat.

Governors concluded that the register needed to be not overly cluttered or complex and should be easily understandable by a lay person. Prior to changing the format there needed to be a better understanding of risk at the Board and for the Board top accept the proposals. The proposal was an improvement on that currently used as it allowed for the risks to be drilled down and risks were owned but if adopted it needed to be a static format.

Governors agreed the following actions:

- **Risk training to be arranged for managers and governors.**
- **Summary report to be added at the start of the register highlighting the changes since the last review**

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<ul style="list-style-type: none"> • Risk Register format to be considered further at the additional Audit meeting 		
A/18/11/12	Business Continuity Planning	
<p>The Interim Deputy Chief Executive presented the report and advised that a business continuity plan group of managers had been set up to review and implement the plan. She advised that she was still to receive the required information from L6FC.</p> <p>Governors noted that the document was a work in progress but welcomed its production and raised concern that not all campuses had provided the required information as this creates a risk.</p> <p>Governors challenged how the documents would be held. The Interim Deputy Chief Executive advised that they would be held in the cloud and that there was back up contingency for if a server failed. Paper copies of key information would also be held in the College's safes.</p> <p>Governors challenged what processes were in place if due to an incident we lost a site. The Principal advised that as we were now multi campus we could move provision to an alternative site and there was also the possibility of using Lound.</p> <p>The Principal advised that a mock incident would be held to test the plan.</p> <p>The following changes were agreed:</p> <ul style="list-style-type: none"> • Section 5 incident designation triangle – red risk to be changed to RIDDOR reportable injury. • 4 Procedure for closing either or both campuses – make clear the differential between Duty Principal and CEO/Principal. <p>The Committee welcomed the document and agreed that it could be used whilst it was being revised.</p> <p>Governors agreed the following actions:</p> <ul style="list-style-type: none"> • Document to be revised and all the required information added and presented to the next Audit Committee. 		UR
A/18/11/13	Regularity Propriety and Compliance manual - verbal update on progress	
<p>The Interim Deputy Chief Executive gave a verbal update on progress with the manual which is being produced in consultation with the Director of Governance. The manual will contain all policies and procedures related to propriety and compliance and all will be reviewed to see if amendments are required.</p> <p>The Interim Deputy Chief Executive suggested that an additional audit meeting be held to discuss and recommend it to Corporation for adoption.</p> <p>Governors agreed the following actions:</p> <ul style="list-style-type: none"> • Additional Audit Committee to be held January 2019 • Additional Audit Committee to consider Board Assurance framework including risk register, Business Continuity Plan and Regularity Propriety and Compliance Manual. 		WS WS

A/18/11/14	Hospitality Register	
The hospitality register was noted.		
A/18/11/15	Review of Meeting	
<ol style="list-style-type: none"> 1. Confidential Items: None 2. Risk Management: as per the agenda item 3. Health and Safety: None 4. Equality and Diversity: None 5. Media: None 6. How did the meeting go: 		
A/18/11/16	Date of Next Meeting	
Additional meeting to be held in January		