

THE WKCIC GROUP

AUDIT COMMITTEE

Minutes of the Meeting held on 21st March 2017

PRESENT Leslie Brissett, Joel Featherman, Mike Magras, Fiona Thompson (Chair)

IN ATTENDANCE Graham Drummond (Director of Governance), Paul Stephen (Group Finance Director), Caireen Mitchell (Group Director Planning and Performance), Graeme Clarke (Mazars, Internal Auditors), Julie Ellis (Governance Officer)

APOLOGIES Michael Bradley

1. MINUTES OF THE MEETING HELD ON 22nd NOVEMBER 2016 **Action**

The minutes were agreed and signed by the Chair as a correct record.

2. MATTERS ARISING

It was noted that:

- With respect to item 2 and the recruitment of a further co-opted member of the committee this will not be pursued until it becomes clear as to whether CONEL will be merging into the Group structure;
- With respect to item 2 and the oversight of Health and Safety arrangements:
 - this will be considered at the committee's next meeting;
 - the Board currently does not have a nominated member for Health and Safety. This is not a requirement; however WKC did have a dedicated member as part of their governance arrangement. It was further noted that this issue would be considered by the Chairs' Group;
- With respect to item 9 and in line with the AoC's Code of Good Governance for English Colleges, the committee's terms of reference include a responsibility to oversee the arrangements for the management and quality assurance of data to ensure its effectiveness. The committee is also required to include a statement about data quality management within its annual report to the Board. The Director of Governance would report back about how best to fulfil this requirement.

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3. INTERNAL AUDIT 2016/17

Three reports were considered and received.

With respect to a report on **Outstanding Actions**, following a review of the Group's progress in implementing internal audit recommendations from previous years, the Committee noted that:

- There were 73 recommendations accepted by management in the report, with 58 followed up as part of this review. Some recommendations have been reformulated in the light of progress made;
- Of the 58 follow ups, 2 were Priority 1 (fundamental), 23 Priority 2 (significant) and 33 were Priority 3 (housekeeping); 38 have been implemented, 10 are in progress, 3 have not been implemented and 7 have been superseded;
- Items under review and in progress include gauging satisfaction with IT processes, periodic reconciliation between the ILR and 24+ loan student portal, and registration

with HR as a prerequisite before teachers commence contracts.

It was agreed by the committee that the recommendation to carry out a periodic reconciliation between the ILR and the 24+ Loan Student Portal should have a revised completion date of August and not April 2017 (ref: 4.4 on page 9 of the Action Plan).

It was also the view of the Committee that the inclusion of a movement update would be helpful in determining whether recommendations had been followed and regularly reviewed.

With respect to a report on **Payroll and Expenses**, the Committee noted that:

- An overall amber rating of adequate assurance had been awarded with respect to the effectiveness of internal controls, indicating that there is generally a sound control framework in place, but there are some significant issues of non-compliance or gaps in the control network;
- There are currently separate payroll arrangements for the colleges; these will be consolidated by the end of the financial year;
- Areas identified as working well from sampling include starter and leaver payment, payroll reconciliations and overtime payment;
- The anomalies included the continued payment of salary to someone who had left the country which is being recouped, claims for expenses which were not substantiated with supporting documents and failure to review acting-up allowances;
- The non-issue of contracts to some staff since the merger may represent a risk of a mismatch between salaries on the contract and new starter form (ref: 4.1 on page 6 of the Action Plan). It is unclear if this is solely as a result of new contracts being issued post-merger or a longer-term issue;
- The majority of the outstanding recommendations would be resolved by May 2017;
- There are internal service agreements in place with the target of 100% accuracy and timeliness of payment and three-year benchmarks to ensure that payroll is administered efficiently; outsourcing is not under consideration presently.

With respect to a report on **Sub-contracting arrangements**, the Committee noted that:

- Lead providers that subcontract more than a defined level of provision in any academic year are required to obtain a report from an external auditor to provide assurance on the arrangements to manage subcontractors, which must be certified;
- New SFA guidance due in December 2016 was issued ten days before the meeting. It is similar to that used for the basis of this report, "Providing external assurance on subcontracting controls", dated September 2015. This report will be confirmed formally in terms of compliance with the new guidance and in line with SFA deadlines;
- The audit follows the form prescribed by the SFA's minimum requirements. There is no overall level of assurance stated, but the findings are consistent with an amber rating;
- The report follows up the implementation of the remaining three Priority 2 and four Priority 3 recommendations from the 2015/16 report regarding WKC and the Priority 3 recommendations made by KPMG, Candi's former internal auditors;
- The SFA's five recommendations following its review and draft report dated 31 October 2016 are not included in this review;
- Subcontracting is reviewed annually by the colleges. Subcontractors are required to maintain audit trails to be available for inspection by the funding agency and the paperwork is checked before data is entered onto the Individual Learner Records;

- Controls are operating reliably in areas such as the fees and charges policy, publication of details of all SFA funded sub-contractors and funding received, due diligence of sub-contractors and credit agency checks;
 - Recommendations for improvement include:
 - having a finalised Strategic Plan which explains why subcontractors are needed;
 - fees should be signed off by the Chief Executive and the Management Team on the website;
 - the due diligence checklist should include the Prevent strategy;
 - CVs should be checked annually.
- To improve and harmonise procedure, a sub-contracting process manual is being drafted for approval by the Group Leadership Team.

4 SFA AUDIT OF WKC'S 2015/16 ILR: UPDATE ON PROGRESS TO ADDRESS ISSUES IDENTIFIED

The Group Director for Planning and Performance presented a report on an update on progress following the Funding Assurance Audit of WKC for the 2015/2016 academic year, dated 31st October 2016 which was also distributed. The Committee noted that:

- WKC was selected at random for this audit and not as a result of any specific concern by the SFA;
- The report identified some recording errors which affected the ILR funding claim around:
 - start and withdrawal dates;
 - learners as meeting/being exempt from the EFA Conditions of funding for maths and English;
 - no evidence to support achievement of Apprenticeship Frameworks;
 - claims for apprentices' functional skills where learners had already attained GCSE grade C or higher.

The SFA is satisfied that corrections were made and the claim is now accurate;

- The reconciliation statement at Annex A indicates that c£561k had been removed from the WKC funding claim for apprenticeships and adult funding for 2015/16, and a further c. £37k had been removed from the 16-18 funding as a result of the amendments;
- ILRs are being checked every week and fewer adjustments should be required, though data from sub-contracting arrangements would continue to filter through at a later stage than that from "in-house";
- Issues highlighted as part of the audit will have no impact on the Group's future funding allocation. There was provision, for example with respect to apprenticeships, to claim for achievement in a subsequent year.

A number of actions have been and are being put in place to address issues identified by the audit. These include:

- The Group is seeking new internal audit arrangements for this area so as to be more closely aligned with the SFA Funding Assurance Audit;
- By early May, there will be a new structure for the Business Intelligence and Registry Team including:
 - a new position of Head of Funding and Planning with responsibility for funding across the Group;
 - a new position of Head of Registry to ensure the accuracy of claims;
 - a new Head of Exams to lead on results capture;
 - funding and planning will be separated from reporting;
- Data from the current three HR systems is being cleansed then migrated onto a new

system. This merger is expected to be ready by the end of May with records being retained for five or seven years. It is expected to reduce the number of data entry staff required, though some awarding bodies will still require manual entry of exam results;

- The Group anticipates that it will be informed in July as to whether another SFA audit will be carried out in the Autumn of 2017.

5. INTERNAL AND EXTERNAL AUDIT REVIEW AND APPOINTMENT

(This item was deferred to the end of meeting without the presence of the internal audit service)

The Group Finance Director presented a report on the review of the Group's audit arrangements. The Committee noted:

- When the WKCIC Group was formed, WKC's internal auditors, Mazars, and WKC and CIC's external auditors, Buzzacott, were retained;
- A procurement process for the Group's external audit service has been initiated, since the existing auditors of both colleges, Buzzacott, had been in place for many years. Already a number of firms have expressed interest including the Group's existing auditors. The Director of Finance will confirm bids received by the tender deadline of 28th April;
- Mazars are in the second year of a three year contract to provide internal audit services, which can be extended and there are no concerns about their regular service. However, as the WKC ILR funding claim had to be adjusted after the SFA audit, the Group may benefit from a more comprehensive level of learner number compliance advice. The Group will invite firms appointed by the SFA to undertake learner number audits to bid for this specialist aspect of the audit. The Director of Planning and Performance will oversee the process as learner numbers fall within her area of responsibility.

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Since the appointment of auditors is a matter for the Group board, Committee members will take part in the selection of the external audit service. The Committee delegated the short listing process to the Director of Finance and it was noted that the Director of Governance would arrange for a suitable date for committee members to participate within the interview process. The committee chair agreed to notify the Board of the intention to tender at the meeting on 29th March.

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6. RISK REGISTER AND OPERATIONAL PLAN

A report, with the new WKCIC Risk Register and Operational Plan appended, was received and considered. The Committee noted that:

- The Register is closely aligned to the Group's Operational Plan. It is reviewed on a termly basis at the GLT meeting with members of the team taking responsibility for different parts of the register;
- The greatest risks are financial with revenue from apprenticeships, ESF, HE and Commercial under continued review; the outdated IT infrastructure also rates highly;
- Take-up of apprenticeships was lower than anticipated; some contracting-out will be required to provide the courses offered;
- The mitigating action supported by the Finance and Resource Committee to reduce the operating surplus from £2.5m to £1.3m would be presented to the Board at its meeting on 29th March; approval for a £2m IT spend to commence in the summer would also be sought in May;
- There have been a number of offsite incidents at CIC's Centre for Applied Science and one at WKC's Kings Cross site involving violence. The assailants in the latter

incident, believed to be motivated by a perceived “turf” incursion, were not students of the college. The colleges have fostered relationships with the police and local businesses to assist with prevention of incidents and apprehension of those involved in any incidents;

- Risks associated with the Training Arm will be included within future versions of the register.

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7. GROUP INSURANCE ARRANGEMENTS

A report by the Director of Financial Accounting and the policy itself were considered and received. The committee noted that:

- The provider, Universities Mutual Association Limited (“UMAL”), is regarded by the Group finance department as providing good value for money. The arrangement involves self-insurance across a group of colleges with “top up” insurance purchased from commercial brokers if required. When CIC was absorbed by WKC, a 14% reduction was obtained compared to the extant cost, part of which the Group re-invested into improved cover. The Group regularly market tests to ensure that it continues to maintain the best deal;
- UMAL’s status as a mutual allows the Group to benefit from an EU procurement exemption from the requirement to re-procure services periodically; the finance department advises that the Group take advantage of this to allow the arrangement with UMAL to continue;
- The largest current claims with the loss adjusters include a 2015 fire in the IT server room at the Victoria Centre (c. £523K) and a flood at CAS (c. £185K);
- The Director of Human Resources and Operational Development is researching products to cover risks arising from employment tribunal claims; it was further noted that it is not possible to insure against acts attributable to neglect or wilful default.
- The Committee recommended periodic benchmarking of the overall level of insurance cover against organisations of similar scale, as an additional check of whether the arrangements represented an appropriate balance of cost and risk mitigation.

8. COMMITTEE AND AUDIT KEY PERFORMANCE INDICATORS

The Director of Governance presented a report on Key Performance Indicators (“KPIs”) to the Committee, together with a presentation on Effective and Efficient Audit Committees and evaluation and self-assessment tools attached that had been given at a Council of Higher Education Internal Auditors meeting. The Committee noted:

- It had always conducted self-reviews, but the issue was raised:
 - so that the committee could continue to inform the board as to whether it had fulfilled its own terms of reference;
 - to ensure compliance with the revised Joint Audit Code of Practice regarding the review of its own effectiveness;
 - to ensure that WKCIC would also review the effectiveness of the Group in relation to audit matters.

A number of aspects of the report were highlighted as potential good practice and it was agreed that the Director of Governance would draft some criteria and KPIs to allow committee members to assess both its own performance and that of the Group in relation to audit matters. This would be considered in draft at the committee’s next meeting prior to use at the committee’s November meeting.

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9. FINANCE & RESOURCES COMMITTEE MINUTES OF MEETING OF 27th FEBRUARY 2017

The minutes of the meeting held on 27th September 2016 were considered and received. It was noted that the F&R had approved an amendment to the Treasury Management Policy (regarding deposit limits), which is due for review by this Committee at its next meeting.

10. HEFCE ANNUAL PROVIDER REVIEW: PRELIMINARY ASSESSMENT

A letter from HEFCE informing the CEO that there were no concerns in relation to quality and standards as part of a preliminary assessment was noted and received.

11. COMMITTEE TERMS OF REFERENCE AND SCHEDULE OF BUSINESS

The Committee's Terms of Reference and Schedule of Business were included within the papers for reference. It was noted that:

- The schedule would be amended subsequent to issues which had been discussed as part of the meeting e.g. review of insurance arrangements would be scheduled for the committee's March meeting and assessment of performance against KPIs would be included within the November meeting, along with a consideration of the effectiveness of data quality management.

The next meeting will take place on Tuesday 13th June 2017, venue to be confirmed.

Signed as a correct record: _____

Fiona Thompson, Chair of the Committee