



**CONFIRMED MINUTES OF THE AUDIT COMMITTEE
HELD ON 19th JUNE 2019**

Present:	Tim Kelly	Independent Governor
	Joe McArdle	Independent Governor (Chair)
	Nigel Woodcock	Co-opted Committee Member
In attendance:	Sue Higginson	Principal
	Michael Norton	Deputy Principal
	Andrew King	Head of Finance
	Paul Haydock	RSM, Internal Auditor
	Rory McCall	Wylie & Bisset, External Auditor
	Lesley Venables	Clerk to the Governors
	Louise Scott-Kelly	Administrator to the Governors

PRE-MEETING WITH AUDITORS

114. The Committee met with the auditors in the absence of management and was advised that there were no significant issues they wished to raise.

APOLOGIES FOR ABSENCE

115. Apologies for absence were received from Joanne Finnerty (Independent Governor) and Paul Smith (Independent Governor).

DECLARATIONS OF INTEREST

116. Tim Kelly declared an interest in any matters relating to the Merseyside Pension Fund.

MINUTES OF PREVIOUS MEETING

117. **Resolved** That the minutes of the meeting held on 20th March 2019 be approved as a correct record and signed by the Chair.

118. Governors received a progress report against the list of actions from the previous meeting and noted that all of the actions had either been completed or were being implemented.

INTERNAL AUDIT VISIT 3

119. The Internal Auditor presented three reports from audits that had been undertaken since the last meeting: Financial Strategy and Sustainability, Key Financial Controls – Purchase Ordering and Supplier Payments and Follow up 2017/18. In addition, a Progress Report against the Internal Audit Plan for 2018/2019 was also provided.

Financial Strategy and Sustainability

120. The Internal Auditor had graded this area as providing 'substantial' assurance. Two low-rated recommendations had been made to improve the approval process for departmental budgets and ensuring that the supporting evidence for budget holder performance reviews was retained.

121. The auditor acknowledged that there was a well-established monitoring framework in place and that the finance team did meet with the departmental budget holders to review costs. However, the College's Financial Policies and Procedures stipulated that each curriculum area's budget would be signed off by the budget holder and the Deputy Principal. Following the audit, management agreed to update the policy and procedures to reflect the actual practice and that evidence of the monthly financial review meetings undertaken with departmental budget holders would be kept on file.

122. A governor asked whether any sensitivity analysis had been undertaken as part of the audit. The Deputy Principal advised that this would be more appropriate in the private sector to determine whether the organisation had sufficient cash flow throughout the year. However, this process did not translate well to the further education sector, due to the inherent uncertainties of both income and expenditure.

123. An additional layer of assurance was provided to governors, which included the KPIs used by the ESFA to determine financial health, the ESFA's endorsement of the College's financial plan and the fact that the Individualised Learner Record was run every 2 weeks to assess whether income matched the identified targets. The College was realistic in its projections and based these on historical outturn data.

Key Financial Controls – Purchase Ordering and Supplier Payments

124. This area had been assessed as providing 'reasonable' assurance, with three low and two medium rated recommendations.

125. One of the low priority recommendations related to the authorisation of payments to suppliers. The Internal Auditor explained that the existing controls should be further enhancements to define the threshold for any discrepancies between the value of supplier invoices and purchase orders values and state. This process would also be added to the Financial Procedures Manual.

126. The other four management actions were on for setting up new suppliers and amending existing supplier details. It was recommended that defined guidance should be provided for the Finance Team to ensure consistency.

127. New suppliers or amendments to existing suppliers such as bank changes should be recorded and evidenced, including telephone calls.

128. A governor questioned if the gaps in current procedures or evidence trails should be considered a high risk as the College could be susceptible to external fraud. The Deputy Principal gave an assurance that management considered this to be high priority. The procedures would be amended in a timely manner and staff development would be undertaken to reinforce the importance of following the guidelines.

129. The Committee requested the updated procedures be presented to the next Audit Committee meeting, together with evidence of compliance.

130. A governor queried the consistency of processes within the finance team. The Head of Finance explained that there had been a restructuring of responsibilities within the department following the retirement of the former Assistant Principal and another member of staff being on maternity leave. However, he felt that the audit had been beneficial and any issues that had been highlighted had since been addressed.

Follow Up 2017-18 Audit

131. The Internal Auditor presented a report on Follow Up work on recommendations made in 2017/2018. Progress in implementing any actions had been graded as 'reasonable'. From a total of 15 management actions, 11 had been fully implemented. There were 2 low and 2 advisory actions in relation to Budgetary Control, GDPR and invoicing processes with Employer Services required further review before being implemented.

132. The Deputy Principal explained that invoices generated by Employer Services differed from other provision within the College and required slightly different processes. Following a restructure, the responsibility of invoices would be temporarily transferred to the finance department.

133. A review of the Employer Services invoicing process was scheduled to take place later in the year. Once a substantial level of assurance was confirmed by a future follow-up audit, responsibility for invoicing would transfer back to Employer Services.

134. The Internal Auditor reported that the actions highlighted in the Follow Up report would be revisited as part of the 2018/2019 follow up audit.

Progress Update

135. Governors received for information a report on progress against the Internal Audit Plan for 2018/2019. It was noted that all scheduled visits had now been completed.

INTERNAL AUDIT PLAN 2019/2020

136. The Internal Auditor presented the draft Internal Audit Plan for 2019/2020 and the associated fees. This had been compiled following discussions with the Deputy Principal and Head of Finance, where the Audit Strategy had been reviewed and potential areas of risk for 2019/2020 had been identified, such as the Examination Process, Student Records for Apprenticeships and HR – Staff Sickness and Wellbeing.

137. The Chair enquired about the scope of the proposed audit of the Examination Process and whether this would cover risks such as the loss of an examination paper (as had occurred recently in the school sector). The Deputy Principal explained that the audit would assess the controls in place for the collection and processing of student examination data.

138. The actual exam-taking process was monitored and assessed by the Joint Council for Qualifications (JCQ). The Committee was informed that the College had recently been

assessed by the JCQ and had received a 100% pass certificate on Examination Arrangements for General and Vocational Examinations and Assessments. The Deputy Principal agreed to report this outcome to the next meeting of the Quality and Standards Scrutiny Committee.

139. Following a request from the Deputy Principal, the Internal Audit Plan also included an appendix that provided data on audit outcomes from across the FE sector, which provided benchmarking information for the College's own Internal Audit Plan. It was acknowledged that apprenticeships would always be a high priority and that the remaining audit areas for review were already part of the College's audit cycle.

140. The Committee asked whether management had considered any other audits based upon the research, such as Payroll or HR – Selection and Recruitment. The Deputy Principal responded that the College's payroll was outsourced to Wirral Council. DBS was already a contractual requirement for College staff, with a central record held by HR and every member of staff having their DBS status checked on a 3-year cycle.

141. **Resolved** That the Board be **RECOMMENDED** to approve the Internal Audit Plan for 2019/20–2020/21 and to delegate to the Committee the ability to amend the Plan during the year should the need arise

EXTERNAL AUDIT PLANNING MEMORANDUM

142. The External Auditor presented the proposed timetable for the Financial Statements audit for the 2018/2019 financial year. The memorandum detailed the key risks as considered by the audit standards, the reporting timetable and fees.

143. A governor queried why the memorandum did not include an amount for materiality. The External Auditor explained that the materiality would be based upon the College's income level as reported in the Financial Statements. As there had been no significant changes it was anticipated that the figure would be similar to the previous year. Any material adjustment would be referred to in the Letter of Representation to the Board, which was scheduled to be presented at the November 2019 Audit Committee. Consequently, any material adjustments would be discussed at that meeting. The Committee was content with the proposed process.

RISK MANAGEMENT UPDATE AND POLICY

144. The Deputy Principal presented the Risk Management Update and explained that the risk register had been reviewed in detail with a key focus to drive solvency. A report on Financial Solvency would be presented to the Board in October.

145. There had been no changes to the levels of risk in the register, but it was noted that the pension deficit risk remained high. The risk to Employer Services also remained high until the restructure had been fully implemented (by the end of August 2019).

146. Governors received the proposed Risk Management Policy for 2019/2020. There were no major changes to the policy from the previous year, however, a statement relating to the College's risk appetite had been added to reflect the in-year internal audit recommendation.

147. **Resolved** That the Board be **RECOMMENDED** to approve the Risk Management Policy for 2019/2020

MANAGEMENT ACCOUNTS

148. The Committee received the Management Accounts as at 31st March 2019, which had also been reviewed by the Board of Governors on 1st May 2019.

149. The forecast financial health remained 'Good' and the Deputy Principal gave an assurance that the College's financial performance continued to be robustly managed. The pension deficit remained a high risk, as reported in the agenda item on Risk Management.

MONITORING RECOMMENDATIONS

150. Governors received a report on the progress of the implementation of previous audit recommendations. There had been three internal audits since the last meeting and there were no overdue actions.

ITEMS TO REPORT TO THE BOARD

151. The Chair summarised the main points of the meeting which would be reported to the Board at its meeting on 17th July 2019:

- Internal Audit reports received on Financial Strategy and Sustainability, Key Financial Controls – Purchase Ordering and Supplier Payments and 2017/18 Follow Up.
- The Audit Committee had requested information on the guidelines/documentation on setting up new suppliers or amending supplier details be presented at the next meeting.
- Internal Audit Plan for 2019/2020, External Audit Planning Memorandum and Risk Management Policy for 2019/2020 were recommended for approval by the Board
- The JCQ Certificate to be presented to at the next Quality and Standards Scrutiny Committee meeting.

DATE OF NEXT MEETING – Wednesday 4th September 2019