## MEETING OF THE AUDIT COMMITTEE

**TIME/DATE 28th November 2019 and continued 10th December 2019**

**VENUE KNOWSLEY BOARDROOM and St HELENS**

**PRESENT:**

Paul Christian Co-opted Member

Alison Cannon External Governor

Debbie Calderbank (Chair) External Governor

***John Heritage External governor***

**IN ATTENDANCE**

Richard Allanach Interim CFO

Jonathan Creed ICCA

Gordon Haworth engagement manager KPMG

Rashpal Khangura (10th December only) KPMG

Lorna Lloyd-Williams Governance Director

**Italics denotes absence MINUTES**

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|  | **The meeting opened at 13.06 and the meeting was quorate with at least three Governors present the majority of whom were external Governors** |
|  |  **MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS** |
|  |  **APOLOGIES**Apologies were received and accepted from Mr. J. Heritage. |
|  |  **DECLARATIONS OF INTEREST***.*There were no declarations of interest.  |
|  |  **MINUTES OF THE MEETING HELD ON THE 26TH JUNE 2019 AND 26TH SEPTEMBER 2019**The minutes of the meetings on the 26th June 2019 and 26th September 2019 were approved as a true and correct record and approved for signature by the Committee chair.  |
|  | **MATTERS ARISING**The Governance Director advised that matters were on the agenda.  |
| 5.1 | Report on penetration testingGovernors asked where overall cyber responsibility sits and were advised it was with the finance section. The committee noted that penetration testing was an annual test and that the report was quite positive but that phishing would need to be covered in a communication to staff. Governors asked what had been done about providing further training and were advised that an all staff communication had been made about phishing. The Governance Director was asked to check this and confirm by email. **Action Governance Director**  |
|  | 6.1 Learner Records AEB and Apprenticeship Review**This item was elevated on the agenda.**Mr. Creed advised the committee a mock funding audit had been undertaken and was advised the approach was identical to that by the funding council but there had been very different conclusions for 16-18 where auditors had been able to give a strong audit opinion. Regarding AEB and the apprenticeships framework, auditors had concluded that this was designed well but that the level of non-compliance was a significant risk and that apprenticeships was a key risk. The committee were advised of 5 recommendations with 2 key ones being high priority. Mr. Creed talked through these and advised it was regarding off the job 20% training. He explained that every apprenticeship standard had an entitlement to and should receive this and the expectation was that there would be a plan set out as to how this would be delivered with regular monitoring of activity. In the auditors sample testing there had been a 50% error rate regarding there being a plan in place. The committee were advised of the management response to this.The 2nd high priority recommendation related to evidence of learning. The committee were informed that the funding rules state that there must be evidence that learning commenced on the start date but with a significant number of apprentices there was no evidence of actual learning. Mr. Creed advised that these were the reasons for the assurance opinions given. The committee noted there was ongoing development Governors asked when a check should be undertaken to assess compliance. Having been advised that the audit was undertaken in late summer the committee questioned whether the College could wait to check compliance. Governors asked whether there could there be a follow up audit and discussed the options around this. Following discussion it was agreed that ICCA would provide a scope for this audit to be considered by the Governing Board at its meeting on the 12th December. **Action: ICCA** |
| 6 | **INTERNAL AUDITS 18/19**Annual Internal Audit report 18/19Mr. Creed of ICCA advised the report was a summary of the internal audit work for 18/19 which included the internal auditor’s opinion and the committee were advised that the internal audit committee report is sent to the EFSA. The committee were taken through the overall opinion which was noted to be: **‘Based on the work undertaken during the year, and the implementation by management of previous internal audit recommendations, we can provide the Audit Committee and Corporation with Reasonable Assurance that SK College Group’s governance, risk management, and systems of internal control were operating adequately and effectively, and that there were no instances where any breakdown of control resulted in a material discrepancy.** **With the exception of those areas giving rise to “High Priority” recommendations and “Limited Assurance”, in our opinion, the College has adequate and effective governance, risk management, and systems of internal control in place to manage the achievement of its objectives and securing economy, efficiency and effectiveness. Five significant control issues were identified in 2018/19 leading to high priority recommendations in relation to:****English and Maths strategy****Learner Records- AEB and apprenticeships where a limited assurance opinion was issued.**Mr. Creed explained that the exceptions were centered on where there had been high priority recommendations in audits or where limited assurance opinion had been given. It was confirmed to the committee that reasonable assurance was the best opinion that can be given. It was also noted that the internal auditors had not used the 6 contingency days. The committee noted that the opinion had been the same the previous year without the exceptions. Governors asked whether the implementation of recommendations was what would be expected. Mr. Creed advised that the college was closer to limited than substantial and that the college would be in the lower quartile regarding timely implementation of recommendations. Governors asked that this be reported to the Board as they were unhappy with this.**Action: Committee chair**  |
|  | 6.2 Curriculum efficiencyMr. Creed advised this was the first internal audit report for 19/20 looking at the colleges response regarding Septembers enrolment and the three drivers for curriculum efficiency. The committee were taken through these and were advised that the audit was looking at staff utilisation and how efficient was the curriculum. The committee considered the report in detail and it was agreed that the report should be referred to the SCP working party for further consideration. Furthermore the Governance Director was asked to check the KPI regarding staff utilisation in the recovery plan and whether this is going to be reported on in the HR report going forward. **Action Governance Director**  |
| 7 |  **KPMG:SUBCONTRACTING CONTROLS AUDIT**The Committee were advised that the external auditors, KPMG had conducted a review of the colleges sub-contracting arrangements in July 2019 and identified one low priority recommendation and it was noted that the recommendation had already been actioned. |
| 8 | **INTERNAL AUDIT RECOMMENDATION TRACKER**The committee were advised the report detailed the current status of the outstanding audit recommendations and Governors commented on the need for timely compliance with recommendations. **The rest of the meeting items were postponed and the meeting ended at 14.01.** |
|  | **9th DECEMBER 2019 9am - continuation of audit committee meeting**The meeting opened at 9.01am and Governors in attendance by conference call were Mr. P Christian, Mrs. A Cannon and Mrs. D Calderbank. Apologies were received and accepted from Mr. J. Heritage. **The meeting was therefore quorate**.Also in attendance were Mrs. L Lloyd-Williams, Governance Director, Mr. R Allanach Interim CFO, MR I Johnson Head of Finance, MR Haworth and MR Khangura of KPMG and Mr. Creed of ICCA.  |
|  | **DRAFT MANAGEMENT LETTER**KPMG gave apologies for issuing their management letter so late and advised that it was issued as a draft document with page 5 detailing the outstanding areas. The committee were advised that the 2 most significant outstanding areas related to going concern and impairment and there was a significant risk KPMG would be unable to issue their audit opinion until January. KPMG advised the committee that they still had gaps in assurance and were unable to confirm whether they could issue a clean audit opinion.The CFO was asked for his view. He explained that the first issue related to the sale of Cherryfield Drive which the College had hoped to have been able to complete on before the 12th December but this was now very unlikely. The CFO advised the College was waiting for the sale contract from solicitors and Governors asked that it be chased urgently. Governors commented that we cannot have a risk of not submitting financial statements by the deadline. It was confirmed that KMPG would be provided with a copy of the sales contract from which they must make their judgment on as to whether valuation of the asset in the accounts was soundly based or not. Secondly in relation to the going concern issue the Board would receive a report on this and will make its own judgment and it would then be for KPMG to decide whether they want to issue an entirely unqualified audit report or put a matter of emphasis in their opinion. It was confirmed that the going concern paper would be provided to KPMG once it was sent to the Governance Director. **ACTION CFO/Governance Director** Governors questioned how realistic the timetable was when it had been suggested at the last meeting the auditor‘s opinion might need an independent review by KMPG’s technical team. KPMG confirmed they may still not be able to sign off until January and advised they were liaising with their technical department and will have to review the evidence and be satisfied with this. KPMG advised that it would be prudent to have a conversation with the ESFA and the CFO advised this conversation had already been had with the ESFA who had been informed of the possibility that the College accounts would have a matter of emphasis on going concern attached to them. The ESFA had stated that they would rather have accounts by 31st December with a matter of emphasis by the 31st December rather than the College not meet the deadline. Governors asked about the consequence of this and were advised that companies who are trading with the College and undertake good due diligence might be more reluctant about extending credit terms.It was agreed that in relation to Going Concern KPMG would give an indication on 12th as to which route they anticipated taking i.e. a matter of emphasis or a clean opinion.If the external auditors gave a clean audit opinion and then college entered into insolvency regime then clearly there would be questions of the auditors. It was noted that if there were to be an emphasis of matter this would need this to be included in the narrative of the financial statements. . **Action: CFO if needed.** Governors were invited to email KPMG with any queries regarding the draft management letter that had just been received. In relation to KPMG’s regularity opinion the Governance Director asked whether KMPG were able to now give this as in the last meeting they had indicated they could not see any issues in relation to regularity. Mr. Haworth advised that he would check the position and reply to the Governance Director later that day.**KPMG then left the meeting.**  |
| 9. |  **RISK REGISTER**The committee considered the risk register which contained ten risks with a mitigated risk score of 12 or more:* Four related to the Colleges financial condition.
* One related to macro-government policy with regard to our nation’s relationship with the European Union.
* One related to micro-government policy and our relationship with government.
* Three related to quality.
* One related to data.

The Chair commented that the summary risk register report was very helpful. The Chair asked what the next steps were in terms of risks being dealt with. The CFO advised that at the next meeting of the Colleges risk management committee he would be recommending that some of the d risks be spilt and some of the overlapping risks be deleted. These would then come through in the next meeting of the audit committee.  |
| 10 |  **RISK MANAGEMENT POLICY**The committee undertook the Annual Review of the risk management policy which had been significantly changed the previous academic year,It was**Resolved** to recommend the risk management policy to the Governing Board for approval.  |
| 11 | **REGULARITY AND PROPRIETY QUESTIONNAIRE**Governors raised a question regarding the fact that the financial regulations and whistleblowing policy needed updating and whether this impacted upon the questionnaire. They also noted and accepted the assurances regarding the recommendations made by the EFSA in the Bourneville investigation report. After discussion it was**Resolved** to recommend the Regularity and Propriety questionnaire to the Governing Board for approval with the caveat that it be noted that the financial regulations are being updated.  |
| 12 | **ANNUAL REPORT OF THE AUDIT COMMITTEE***for recommendation to the Governing Board*The report having been amended to incorporate changes requested by the committee since the 28th November it was agreed that the Committee chair having seen the final version of the report, it would be sent to the committee for further comment that day to then be recommended to the Governing Board for approval, it being noted that this was a partial report only as the KPMG report was awaited. * 1. **Mr. Creed left the meeting**
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| 13 | **Appointment of Internal and External Auditors***G*overnors felt changing both auditors in the same year would be too much of a risk for the college and it was **Resolved** to recommend that the College extend the contract for one year for internal auditors and go out to tender for external auditors. Mr. Christian confirmed that he would be willing to be part of selection panel for tender process for external auditors and the CFO commented that he would be excellent to be on the panel. |
| 14 | **Any Other Business**There was no AOB.  |
| 15 | **Any Matters to be referred to another committee**There were no matters to be referred to another committee.  |
| 16 |  **REFLECTION ON COMMITTEE PERFORMANCE** Governors felt that the concept of a joint meeting was good but expressed concern that a junior auditor attended the meeting on the 28th November. |
| 17 | **Financial Statements & Letters of Representation***with FR&C Committee for recommendation to the Governing Board* This part of the meeting was held jointly with members of the FR&C committee and is minuted in the FR&C committee minutes of the 28th November 2019.*.*  |
|  | **Date of next meeting***Thursday 19th March 2pm St Helens Boardroom***The meeting on the 10th December closed at 9.59 am.** |