

Wakefield College Corporation

Board of Governors Audit Committee

Minutes of the Meeting held on 21 November 2017

1 Present: Emma Elvin, Andrew McConnell, Ian Parsons (Chair),
Andy Wallhead, Andrew Watts

Clerk to the Corporation

In attendance: Executive Director Finance and Resources, Peter Edwards and
Chelsea Hale (Grant Thornton), Mark Ashton-Blanksby (ICCA-
ETS), Tony Williams

Apologies:

It was noted that Tony Williams was present as an observer.

2 Appointment of Chair and Vice Chair of the Audit Committee for 2017/18

Resolved

That Ian Parsons be appointed Chair of the Audit Committee for 2017/18 and up until the date of the first Audit Committee meeting in 2018/19.

That Emma Elvin be appointed Vice Chair of the Audit Committee for 2017/18 and up until the date of the first Audit Committee meeting in 2018/19.

3 Closed Session with Auditors

3.1 Neither Grant Thornton (external auditor and reporting accountant) nor ICCA-ETS (internal audit service [IAS]) had any issues to raise in relation to their work in 2016/17 within the Closed Session. General matters discussed included:

- (i) the leadership in finance, where both the Executive Director Finance and Resources and Finance Manager were felt to be very capable;
- (ii) the internal control issue raised in the prior year by Grant Thornton on the authorisation of journals, and the adequacy of the management response. It was noted that the vast majority of journals were automated, but that some were manual. It was suggested that a pragmatic way forward might be to focus on the risky journals, with consideration also be given to ensuring that journals above a certain value be required to have a secondary approval;
- (iii) ICCA-ETS were early on in their programme of work for 2017/18 in respect to working with the Executive Director Finance and Resources. The College's Internal Audit Annual Report for 2016/17 was not as 'clean' as in recent years. However, this was because the former Deputy Principal sought reviews into those areas of activity that were most likely to benefit.

The Executive Director Finance and Resources joined the meeting at the end of this agenda item.

4 Declarations of Interest

- 4.1 Andrew Watts advised that the Business Systems Team, of which he was a member, was referenced in Agenda Item 7 (Status of Outstanding Audit Recommendations) under Report Ref. 229, which related to corporate dashboard developments to monitor apprenticeship activity.

5 Minutes of the Meeting held on 27 June 2017

Resolved

That the minutes of the meeting held on 27 June 2017 be approved.

6 Matters Arising

- 6.1 On minute 6.2(ii) (Risk Management, Control and Governance), it was noted that the Pay Review Strategy, notably the College's response to the impact of the living wage was having on lower end of the pay scale, was scheduled to be considered by the Board at its meeting on 27 March 2018.

7 Status of Outstanding Audit Recommendations

- 7.1 The Executive Director Finance and Resources reported the following:

- (i) two versions of the Status of Outstanding Audit Recommendations report had been presented; Governors' preferences were sought;
- (ii) 19 of the 29 (65%) recommendations had been implemented;
- (iii) the majority of the recommendations made in the IAS review of apprenticeships in March 2017 were still outstanding, and that this was not due to a lack of effort, but a reflection of the level of change and uncertainty the College was facing as a result of the apprenticeship curriculum and funding changes that were still being introduced;
- (iv) there were a number of revised implementation dates that were proposed for Governors to consider.

- 7.2 Governors considered the following issues:

- (i) whether the Finance Department had sufficient resource to support the College's apprenticeship provision. The Executive Director Finance and Resources opined that there was sufficient existing resource and added that the demand tended to be up front, for example, in securing bids;
- (ii) the timing of the IAS review of the College's implementation of the apprenticeship growth strategy and response to reforms. This was planned for January 2018. However, it was agreed that this should be deferred until the College had completed its own planned internal review;
- (iii) report preference. It was agreed that the exception report be used when this item was considered in the future, but with some additional detail included;
- (iv) how changes to deadlines were authorised – these would not be changed without Audit Committee consent. It was agreed to leave deadlines unchanged and report these as 'outstanding' in the exception report.

8 Risk Management, Control and Governance

8.1 The Executive Director Finance and Resources reported the following:

- (i) two of the identified key risks in 2017/18 were felt to have increased:
 - Risk 5 (failure to main a financially robust operating model in the face of increased competition, demographic pressures and funding changes). The College had seen lower than planned enrolments across a number of income streams, including 16-18, higher education and fee bearing courses. Mitigating strategies had been implemented, but it was now unlikely the College would achieve its income targets and there was a risk to the budgeted operating outturn. Greater clarity on the forecast outturn would be available once the autumn business reviews had concluded;
 - Risk 6 (failure to expand, engage and use stakeholder relationships to promote the quality of our offer and win new business). While the College continued to build good relationships with existing and new stakeholders, the effectiveness of the growth strategy and business development activity needed to be evaluated in light of the lower than anticipated enrolments for the year to date.

8.2 Issues discussed by Governors included:

- (i) the mitigating actions against Risk 5. It was noted that, at the autumn business reviews, managers would be reminded to keep their budgets on target. It was also noted that additional mitigating actions included those recommended within the IAS report on Curriculum Design (see Minute 9);
- (ii) on Risk 6, it was asked whether the College understood why some students decide to not enrol with the College. A host of factors including demographic decline, increased competition and Ofsted grade were all thought to influence enrolments;
- (iii) whether Risk 2 (failure to realise our planned growth in high quality apprenticeship provision) had increased. It was noted that apprenticeship enrolments were up, the College had won more contracts and the leading indicators on delivery were looking positive;
- (iv) whether business continuity planning was viewed as a key risk. It was noted that the College did have a comprehensive business continuity plan but that, in itself, this was not viewed as a significant risk.

9 Internal Audit Reports

(i) Curriculum Design

9.1 ICCA-ETS reported the following points:

- (i) the audit was designed to provide an assurance opinion that the College's curriculum planning framework was supported by robust systems, processes and controls to maintain the viability of the College based upon recruitment plans and financial planning;
- (ii) the design of controls was "adequate", their application / compliance "weak", giving an overall assurance opinion of "reasonable";
- (iii) one high and two medium priority recommendations were made:

- the high priority recommendation was to: (a) undertake a formal post-enrolment review to investigate reasons for under recruitment against 16-18, adult and apprenticeship targets in the identified curriculum areas; (b) build an annual post-enrolment review into the strategic planning schedule; (c) develop specific curriculum level strategies to address identified issues and develop bespoke marketing strategies; and, (d) continue to conduct an in-depth review of the curriculum offer with the Marketing Department;
 - a medium priority recommendation was a series of actions to improve the conversion rate from application to enrolment which, at 48%, was at the lower end of expectations compared with sector norms;
 - the last medium priority recommendation was a series of actions to improve internal progression within the College.
- All recommendations had been accepted.

9.2 Governors considered the following issues:

- (i) the financial impact of missed enrolment targets. It was noted that some of this would have been mitigated by moving students up bandings and funding formula protection;
- (ii) that the decline in 16-18 numbers was a regional demographic issue affecting the sector;
- (iii) the College's low conversion rate from application to enrolment. It was noted that the sector norm was well above 55%. The College's inclusive nature was also raised as a possible cause of the low conversion rate;
- (iv) the work-streams arising from the three recommendations in this review were considered critical to the future success of the College and an update on progress was requested for the next meeting.

10 Internal Audit Annual Report 2016/17

10.1 ICCA-ETS reported the following:

- (i) the IAS provided a key part of the overall assurance in relation to the College's governance, risk management and systems of internal control;
- (ii) the Internal Audit Annual Report 2016/17 provided management and the Corporation with "*reasonable assurance that Wakefield College'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 material discrepancy*". It also provided an opinion that the College has "*adequate and effective management, control and governance processes in place to manage the achievement of its objectives and securing economy, efficiency and effectiveness*";
- (iii) that, of the seven reviews undertaken during the year, two had resulted in "substantial" assurance opinions, four with "reasonable" assurance opinions and one "limited" assurance opinion – the latter on work experience and work placements. Management had accepted all the recommendations made;
- (iv) that in a follow up of recommendations agreed in 2015/16, of the 16 recommendations made, eight had been fully implemented, three had been partially implemented, two had not been implemented (in progress) and three were no longer considered relevant.

10.2 Issues considered by Governors included:

- (i) the nature of the working relationship between ICCA-ETS and College staff. It was noted that ICCA-ETS consulted College staff on their findings, but that these were not always agreed;
- (ii) that the Education and Skills Funding Agency (ESFA) would provide 'capacity development funding' to colleges for enhanced work placements during the 2018/19 academic year with the expectation that they should be able to develop the capacity to deliver substantive work placements ahead of the roll-out of the new T-levels from 2020 (where work placements will be an essential component). Funding could be as much as £375k for the College.

Resolved

That the Internal Audit Annual Report 2016/17 be recommended to the Board of Governors for approval.

Mark Ashton-Blanksby left the meeting at the end of this agenda item.

11 Management Assurance 2016/17

11.1 The Executive Director Finance and Resources reported the following points:

- (i) that the Management Assurance 2016/17 was part of the year-end assurance to the Board that key controls were in place during the year;
- (ii) that the report was prepared on behalf of the Executive Team;
- (iii) that the Management Assurance 2016/17 included an opinion from the Executive Team that the "*...management assurance processes in place during the year were adequate in identifying, evaluating and managing the College's significant risk for the period ending 31 July 2017 and up to the date of approval of the annual report and accounts.*"
- (iv) that the assurance statement could be given despite the disappointing Ofsted inspection outcome, as this had been identified as a specific risk for the year.

11.2 Governors were content with report as drafted.

Resolved

That the Management Assurance 2016/17 be approved.

12 Audit Committee Annual Report to the Board of Governors and Principal 2016/17

12.1 The Clerk to the Corporation reported the following points:

- (i) that the format of the Audit Committee Annual Report was similar to that presented in the previous year;
- (ii) given the comments of ICCA-ETS, the report might be improved by specific reference to the limited assurance opinion arising from the IAS review into work experience and work placements;
- (iii) that the proposed overall opinion of the Audit Committee was that "*...the College's systems of internal control and its arrangements for risk*

management, control and governance processes, and securing economy, efficiency and effectiveness (value for money) are both adequate and effective”.

12.2 Governors considered the following issues:

- (i) that specific reference should be made to the limited assurance opinion by the IAS on their review of work experience and work placements;
- (ii) that the report should reference the in-year occurrence of the key risk: 'If we do not embed a learning culture that drives continuous improvement in teaching, learning and assessment, mediocre or poor learning will result, damaging our reputation and recruitment and (potentially) resulting in "Requires Improvement" at inspection and poor performance in new headline accountability measures, possibly triggering intervention'. It was agreed that despite the occurrence of this risk, it did not prevent the Audit Committee from retaining its overall opinion.

Resolved

That the Audit Committee Annual Report to the Board of Governors and Principal 2016/17 be recommended to the Board of Governors for approval.

That the performance of both the internal audit service and external auditor and reporting accountant in 2016/17 be noted.

That the performance indicators for the audit providers in 2016/17 be used in 2017/18.

13 Report and Financial Statements for the year Ended 31 July 2017

(i) The Audit Findings for Wakefield College

13.1 Grant Thornton reported that their audit went well. Key issues reported included:

- (i) that they anticipated giving a clean audit opinion, with the only outstanding items being: (a) the confirmation from the ESFA regarding third party confirmation of income recognised and confirmation of no known fraud or whistleblowing; and, (b) the signed Letter of Representation;
- (ii) there were no significant audit findings;
- (iii) 'other findings' included one on the Crofton Partnership Agreement and the decision to amend the useful economic life of the College's property there to 24 years (previously 10 years) so that it was now coterminous with the period of the lease of the land on which the building is situated. It was concluded that the treatment of the Crofton loan and building was appropriate;
- (iv) the regularity audit had concluded that there were no material findings and that an unqualified regularity opinion would be issued within the financial statements;
- (v) the actuarial valuation of FRS102 retirement benefits of the College had been benchmarked, with the College positioned directly on the benchmark;
- (vi) on 'other communication requirements', no matters of fraud had been reported and all other communications were clean;
- (vii) two internal control deficiencies were identified:

- one suspense account was included within the trial balance at 31 July 2017. The management response was that this transaction had been auto allocated in the finance system to a transaction in 2017/18 and that no in-year adjustment was needed in this instance;
 - that endowments had not been included in the trial balance at 31 July 2017. Management indicated that this would be done in 2017/18;
- (viii) of the three internal control issues identified in 2016/17, one had not been addressed. This particular issue had two components: (a) that journals could be posted without authorisation from another individual; and (b) the finance system administrators were members of the finance team, permitting controls to be overridden;
- (ix) there were no adjusted misstatements and one unadjusted misstatements amounting to £33k and was likely to recur next year but was not material.

13.2 Issues discussed by Governors included:

- (i) the internal control deficiency on the authorisation of journals before they were posted. It was acknowledged that it was not feasible to check all 156,000 transactions, but suggested that the College could undertake spot checks of the known risky journals (e.g. cash journals), where fraud was more likely to take place;
- (ii) the mandatory Gender Pay Gap Reporting, with the first report to be published by 30 April 2018. The Executive Director Finance and Resources opined that this would not present an issue for the College.

Resolved

That the Audit Findings for Wakefield College be recommended to the Board of Governors for acceptance.

(ii) Letter of Representation

- 13.3 Grant Thornton indicated that the Letter of Representation that the College was being asked to sign was its generic letter, with the two exceptions being the reference to the appropriate re-assessment of the useful economic life of the Crofton Building and the unadjusted misstatement relating to the accounting treatment of depreciation.

Resolved

That the Letter of Representation be recommended to the Board of Governors for signing by the Chair.

(iii) Draft Report and Financial Statements

- 13.4 The Executive Director Finance and Resources reported that College had achieved three of its five financial objectives. Those objectives that were not met included:
- (i) to increase 'other income' to 22% of turnover, where 20.5% was achieved;
 - (ii) to make full use of the Advanced Learning Loan Facility allocated to the College. The College was allocated a target of £628k for the year ended 31 July 2017; £527k (84%) of this was achieved;

13.5 Governors were content with the report as drafted. Governors noted that cash generation during the year was good. It was also noted that, at the appropriate time, the College would have to properly account for the disposal of the Thornes Park Campus.

Resolved

That the Report and Financial Statements, together with the accounting policies underpinning the accounts, be recommended to the Board of Governors for approval.

(iv) Regularity Self-Assessment Questionnaire

13.6 The Executive Director Finance and Resources reported that the model wording of the 'Statement of Regularity, Propriety and Compliance' had been shared with Governors and was required to be signed by the Chair of Governors and Accounting Officer, as part of the Report and Financial Statements. It was proposed to confirm that *"...no instances of material irregularity, impropriety or funding non-compliance have been disclosed to date. If any instances are identified after the date of this statement, these shall be notified to the ESFA."*

Resolved

That the signing of the Statement of Regularity, Propriety and Compliance (as part of the Report and Financial Statements) be recommended to the Board of Governors for signing by the Chair of Governors and Accounting Officer.

14 Review of Effectiveness of Meeting and Identification of Emerging Risks

14.1 It was noted that there were some significant pieces of work to be done arising from recommendations from the IAS review of Curriculum Design.

14.2 It was noted that this was probably the last Audit Committee meeting for Andrew McConnell and Andy Wallhead. The Search Committee could consider committee membership at its next meeting with recommendations to be made to the Board of Governors. Governors thanked both Andrew and Andy for the diligence and expertise they had given to this Committee over many years.

15 Date of Next Meeting

The date of the next scheduled meeting is Tuesday 6 March 2018 at 4.15pm.

Signed..... Date.....