

**Minutes of the Meeting held on Tuesday 14 March 2017**

**1. PRELIMINARY PROCEDURAL MATTERS**

**1.1 Attendance, Apologies for Absence & Committee Chair**

**Members Present:** Babu Bhattacharjee

Catherine Swarbrick      Committee Chair

Jackie Moylan

Richard Ward

Paul Winrow

Gareth Wall

(From 2.1.1)

**In Attendance:**

Jayne Chaplin

Clerk to the Corporation

Roger Cottam

Deputy CEO

(Except item 1.2a)

Gerry McDonald

Group Principal & CEO

(Except item 1.2a)

Steve Lake

Internal Audit Service (TIAA) (Until Item 4.1)

Following the resignation of Board member and Audit Committee Chair, Martin Ryan, Catherine Swarbrick chaired the meeting.

The Chair welcomed all to the meeting and introductions were undertaken.

**1.2a Confidential session - Members and Auditors only**

*The audit services joined the meeting and Mr G McDonald & Mr R Cottam left the meeting at this point.*

There was a brief meeting between the Committee Members and the Internal Audit Service, TIAA.

Members were advised that whilst all had proceeded smoothly during the autumn term, the co-ordination required in amalgamating all the cross-campus information and findings had delayed the presentation to and sign-off by the College of the final report.

Discussion with the IAS included:

- The issues encountered with the presentation of some of the reports following the autumn term reviews. Expressing regret and acknowledging the inconvenience caused, it was confirmed that this had been the subject of discussion with College management with a subsequent internal review by TIAA of its processes to prevent any recurrence for the remainder of the audit plan, confirming all was proceeding as anticipated with the spring term reviews.
- The reviews of sub-contracting arrangements and whistleblowing allegations presented for discussion later on the agenda (Minutes 2.1.1a & b refer). In response to questioning it was noted that such a review now formed a mandatory requirement by

the Skills Funding Agency and for the IAS to issue the necessary certificate by the end of April 2017 the review was undertaken both to confirm that all appropriate arrangements were in place, including the recommendations made to HCC but subsequently not implemented prior to merger that had resulted in the negative opinion issued to HCC at year-end. There was discussion of the nature of the issues identified, noting the range of poor practice that had emerged, including inappropriate completion of paperwork and apparently forged signatures, and that an absence of evidence prevented identification of those responsible.

## **1.2a Confidential Session - Members and Management only**

*Mr G McDonald & Mr R Cottam re-joined the meeting*

See Minute 4.1

## **1.3 Declarations of Interest**

None reported.

## **1.4 Notification of Any Other Business (not on the agenda)**

No items of other business raised.

## **1.5 Minutes of the Previous Meeting**

It was **RESOLVED** to **APPROVE** the Minutes of the Audit Committee meeting held on 29 November 2016 and for the Minutes to be signed by the Chair.

## **1.6 Matters Arising**

### **External Audit - Financial Statements & Regularity Audit - Planning, timetable & arrangements (Minute 1.6)**

Further to previous discussions of the proposed additional fee by the EAS for the work required to review the work to implement FRS102, it was confirmed that the matter had been agreed and concluded satisfactorily.

## **2. ITEMS PRIMARILY FOR DISCUSSION, DECISION OR ACTION**

### **2.1 Internal Audit Service (IAS)**

#### **2.1.1 Audit Assignment Reports**

The first three internal audit reports from the College Internal Audit service, TIAA, were presented, representing the first phase of its work for 2016/17, comprising:

##### **2.1.1a Review of Subcontracting Arrangements**

*Mr G Wall joined the meeting*

Conducted in the autumn term in parallel with the review on Whistleblowing Allegations, forming the subject of discussion elsewhere on the agenda (Minute 2.1.1b refers), the findings from the review of sub-contracting arrangements were presented.

Although no overall assurance rating had been provided because of the nature of the review undertaken in recognition of the importance of the continued processing of sub-contracting

through View Training, it was reported that management were addressing the issues raised, which comprised five urgent issues, four important, one routine and two operational recommendations.

There was discussion in the context of those items elsewhere on the agenda (Minutes 1.2a and 2.1.1b refer), with consideration of the issues identified and the recommendations made including:

- The period over which the certificate covered, noting that it related to the current year only. Responding to questioning of potential implications should the certificate not be issued or recommendations not implemented, members were advised that the former would prevent further sub-contracting but that the certificate would be issued providing management gave an undertaking to implement recommendations made. Members were advised that an early April follow-up review had been proposed to allow for further action to be taken if necessary in advance of the 30 April 2017 deadline for its issue by the IAS. Noting that the Committee was not scheduled to meet again until June 2017, it was agreed that members would be provided with confirmation that all recommendations had been implemented and the certificate issued.
- Management confidence that all issues had been identified for resolution noting further discussions were scheduled to take place at SMT immediately following the meeting but confirming in response to questioning that in the meantime the report provided the basis for the Action Plan to be implemented; and that a further update would be provided.
- The issues identified in reviewing the whistleblowing allegations, particularly the possible inappropriate completion of paperwork and apparently forged signatures, responding to questioning of potential defrauding of the College and noting both that no such evidence had been identified and that files had been subsequently reviewed and corrected.

Following discussion, the report was noted.

### **2.1.1b Whistleblowing Allegations**

A report on Whistleblowing Allegations following concerns raised by a member of staff about procedures within View Training with the review conducted in parallel with the review of sub-contracting (See Minute 2.1.1a).

### **2.1.1c Creditor Payment Arrangements**

A report on the review of creditor payment arrangements, looking at processes at both campuses to identify both where controls required enhancement and/or where inconsistencies were identified and where adoption of the process would improve control.

After confirming an overall assessment of "Reasonable Assurance, based on the number of recommendations made, members were advised of 13 recommendations in total with 6





deemed important, noting some of the more cultural issues to address, particularly at HCC, with some frustration expressed that such matters were only now emerging.

The findings and recommendations were reviewed noting management's positive response, and its approach to ensure the implementation of best practice across the organisation, welcoming confirmation that progress was to be the subject of more close follow-up by the IAS in-year.

Following review, the report was noted.

#### **2.1.1d Internal Audit Service (IAS): Progress Report**

A report was received from the IAS updating members on the progress of the work forming the Audit Plan for 2016/17.

Acknowledging discussion elsewhere on the agenda (Minutes 2.1.1a – 2.1.1c refer), it was confirmed that no changes were currently proposed to the Annual Plan other than the timing of the ten-day review of student records and learner numbers, suggesting for it to form part of the plan for the Block 3 reviews.

Reflecting on the Plan for the remainder of the year and volume of business to be presented with the next meeting to be the final for the academic year at there was discussion of the practicalities noting:

- Proposals to liaise further with members should any further changes to the Plan be necessary, acknowledging the need for it to remain flexible.
- The potential for and agreeing to provide members access to the IAS client portal to allow for review of information in real-time and make more efficient use of members' time in meetings.

After discussion, it was **RESOLVED** to:

- **APPROVE** the proposal for the ten-day review of student records and learner numbers to form part of the plan for the Block 3 reviews.

#### **2.1.1f Audit services: Performance Review**

**See Minute 1.2**

### **3. ITEMS FOR INFORMATION PURPOSES ONLY**

#### **3.1 Merger Implementation Update**

Reports relating to merger implementation were presented.

Comprising the Risk Register for the forthcoming merger with Redbridge College along with the merger implementation plan, members were advised that both documents had been

adapted from the templates used for the THC/HCC merger and updated to reflect the issues arising from this particular merger.

### **3.1.a Merger Plan**

It was reported that whilst broadly similar in nature to the merger between THC and HCC in respect of the legal and contractual elements of the process, additional risks had been added to the Merger Plan and reflected in the Risk Register concerning:

- Issues relating to the delayed land sale at Redbridge College and the ongoing need for banking facilities from Lloyds;
- The need to move the local government pension arrangements from the Redbridge scheme to the London Pension Partnership via a directions order; and
- the implications of VAT on property transfers

There was consideration of:

- The specific issues identified discussing in particular the detail of the risk associated with the move of the pension transfer and the likelihood of its crystallisation noting that there had been no such indication to suggest this would be so, based on discussions to date with the London Pension Partnership.
- The need to revisit and update Due Diligence noting that having worked in close association with the College over the past 15 months a smooth transition post-merger was anticipated.

It was agreed that members would be updated at the next meeting and following consideration, the report was noted.

### **3.1.b Risk Register**

See Minute 3.1.a

### **3.2 Risk Management: Progress Report**

A report was presented advising members of the main development in and changes to the College Risk Register.

Retaining the format developed during 2014/15 to align it to the College strategy 2014-2018 and the underlying strategic priorities and excluding the specific risks related to the merger with Redbridge College reported separately (Minute 3.1 refers), members were advised:

3.2.1 Of 11 significant risks at the inherent level, three of which were mitigated by controls.

3.2.2 That the other risks had been reviewed to ensure that they remain relevant to the revised Strategic Priorities noting that as the post-merger college developed, it was

expected for further risks to emerge and be reflected in the register in the coming months.

Discussion included:

- 3.2.3 Clarification of the development and assessment of the assurance level ratings in the context of the control applied within the register.
- 3.2.4 The increase in the risk (SP3.3) to reflect the considerable work required to regularise the position regarding the VAT implications of merger, relating to the VAT grouping, the partial exemption methodology and the treatment of property. In response to questioning it was confirmed that expert VAT advice was being obtained and that until the position was resolved it would be treated as a significant risk in recognition of the potential sums involved.
- 3.2.5 the reassessment of the risk, property strategy (SP3.14), to significant in recognition of the potential values involved and the simultaneous downgrading of risk (SP3.15), project implementation, reflecting the nature of the risk and its lessened financial impact.

Following review, the report was noted.

### **3.3 Audit Recommendations: Progress Report**

A report was received updating members on progress in the implementation of audit recommendations from the respective audit services.

After reporting on the 18 open recommendations from the THC Internal Audit and three from HCC, members were advised that:

- 3.3.1 Of these two were high priority, relating to the developing a more comprehensive Business Continuity Plan and procedures relating to traineeships at HCC with the remaining six of medium priority 13 of low priority.
- 3.3.2 The issues raised in the funding audit last autumn at THC had been addressed.
- 3.3.3 The External Auditors' recommendations, had been actioned other than further analysis of the endowment funds and the interface between the finance and student record systems, which similarly had been raised by internal audit.

Discussing the number and nature of the outstanding recommendations it was noted from management that it was becoming apparent that there was little merit in progressing with implementation as the changes arising from merger would supersede the position or at least require consideration of the implications across the merged college.

In that context, the report was noted.



#### 4. Audit Services

The IAS, TIAA, left the meeting.

##### 4.1 Auditor Performance & Re-appointment

There was discussion between the Committee Members and Management of the performance of the audit services noting those issues discussed elsewhere (Minute 2.1.1a), which had been the subject of review between management and the IAS.

A report was then presented following up from discussion at the Committee's last meeting regarding the tender for external audit services in advance of and in preparation for the year end on 31 July 2017.

Having proved difficult to develop an appropriate timeline, taking into account the proposed merger with Redbridge College, the tender process practicalities and the timing of governor meetings, members were advised of proposals to instead defer the process and for KPMG to continue as external auditors with the process to commence in January 2018.

After discussion, it was **RESOLVED** to **RECOMMEND** for the Corporation to:

4.1.1 **APPROVE** the proposal for KPMG to continue as external auditors for and to undertake the audit of the Financial Statement for the year-end 31 July 2017; and for the tender process for the External Audit Service to commence in January 2018.

#### 5 OTHER BUSINESS & NEXT MEETING

##### 5.1 Any Other Business

None reported.

##### 5.2 Dates of Next Meetings

**Tuesday 20 June 2017 at 8.30am**

Agreed as an accurate record of the meeting

Signed..........

Date: 20 June 2017

