

Kirklees College Corporation

**AUDIT COMMITTEE****Minutes of a meeting held on 4 December 2017 at 3.30 pm at the Huddersfield Centre**

Present:	Mr D Keeton Mr M Pearmain Dr A Williams	Independent member Co-opted member Independent member
Apologies:	Mr G Hetherington Mr Z Pervais Ms C Dean	Independent member Independent member Kirklees Council IAS
Attendance:	3/5 = 60%	[KPI 80%] Quorum: 3
In attendance:	Mr D Winward Ms M Brooke Ms M Gilluley Mrs R Meara Mr A Riley  Mr M Dearnley Ms D Watson Ms K Doherty	Clerk to the Corporation Vice Principal - Corporate Services Principal Director of Finance Director of MIS, IT and Risk  Kirklees Council IAS Grant Thornton LLP Grant Thornton LLP

**1. Election of Chair**

Dr Williams was elected as Chair for this meeting. It was noted that additional members would need to be appointed following Mr Hawley's resignation. The proposal to elect Mr Hetherington as Chair of the Corporation would preclude his membership of the Audit Committee creating a further vacancy. An election for a longer-term Chair of the Committee would then be made.

**2. Apologies for absence**

Apologies were received as listed above. The resignation of Mr A Hawley from the governing body was noted.

**3. Declarations of interest**

There were no declarations of interest.

**4. Minutes of the previous meeting**

The minutes of the meeting held on 3 July 2017 were confirmed as an accurate record.

**5. Matters arising not elsewhere on the agenda**

**(i) Audit Plan 2017/18.** As had been suggested at the previous meeting, the Senior Leadership Team had considered and now recommended the replacement of the proposed audit review of Performance Management with a review of the new finance system. The Committee supported this recommendation.

**(ii) Update on agreed actions.**

The Committee received an update on agreed actions. None were outstanding.

## 6. Internal Audit Reports

Mr Dearnley presented the following reports:

### **Progress Report**

Since the previous meeting, the post project evaluation of the Process Manufacturing Centre had progressed and was almost complete. The review of Additional Learner Support had also progressed but was not yet finalised. The remaining reviews for 2017/18 were Internal Progression, Major Incident Planning, New Finance System and the Follow-up review.

The Committee discussed the most appropriate timescale for the Health & Safety follow-up review. This had been planned for term 3, but could be brought forward. Ms Brooke suggested that this should take place after Easter in order to allow the changes to be fully implemented, with the report being made to the July meeting.

### **Accounts Payable**

Mr Dearnley reported on the Accounts Payable review which had been allocated an Adequate assurance rating. The review was intended to provide assurance on the adequacy of procedures and controls in operation for the ordering and payment of goods and services. The review found that there was a robust system of internal control, with payment of invoices complying with the requirements of the Financial Regulations. However, exceptions and non-compliance were identified in official orders and evidence of competitive processes.

The review resulted in 2 'Significant' recommendations: to remind staff of the need to avoid the placement of verbal orders in all but exceptional circumstances, and of the need to obtain quotations where relevant, in line with the Financial Regulations.

The Director of Finance reported that whilst under the new finance system the existing basic processes had been replicated, the new system has a requirement to attach documents supporting procurement decisions for any expenditure in excess of the £5,000 financial regulations threshold. The Committee discussed the level of risk in the identified examples of verbal orders having been placed for agency staff, catering supplies and software. Mr Dearnley accepted that individual orders for minor items might not be appropriate, but suggested that a list of approved suppliers should be in place.

It was reported that all recommendations would be followed up and progress on the 'Significant' recommendations reported through the Committee's usual processes.

***RESOLVED: to receive the reports.***

## 7. Rolling Audit Action Review (RAAR)

Mr Riley presented a summary of the current position on the implementation of audit recommendations:

- Of 54 internal audit recommendations, 48 (89%) were complete and 6 (11%) overdue (against original target completion dates);
- Of 3 external audit (2015/16) recommendations, 2 (67%) were complete and one (33%) was in progress.

The overdue 'Significant' recommendation related to the implementation of cash handling procedures which was on track to be completed by December 2017 as part of the implementation of the College's new finance system.

The Committee welcomed this efficient way of reporting progress.

***RESOLVED: to receive the report.***

## **8. Members' Report and Financial Statements**

The Director of Finance presented the draft Members' Report and Financial Statements for 2016/17. This was incomplete primarily due to the outstanding consideration of going concern which required the outcome of the application to the ESFA for Exceptional Financial Support (EFS), a decision on which was due to be considered at the ESFA's Funding Committee meeting being held at today's date. It was therefore proposed to provide a further report on going concern for full consideration of auditors and governors once the outcome was known.

Mrs Meara highlighted that:

- the external audit had progressed very well and no errors or adjustments to the figures presented had been identified by the auditors;
- £1.4m of the £1.6m ESFA end of year exceptional adjustment claim had been allowed with a decision still awaited on the remaining £200k;
- the Operating Surplus for Performance Ratio (OSPR) was £400k above the revised budget target;
- the covenant breach, as previously reported to the Corporation, had led to the re-classification of the Lloyds Bank facility as a short-term loan;
- the accounts returned an automatic assessment of Inadequate under the new financial health measures.

***RESOLVED: to receive the report.***

## **9. Annual Report of the Audit Committee**

The Clerk presented the draft Annual Report of the Audit Committee for 2016/17. This remained incomplete due to the outstanding matters including the application for Exceptional Financial Support and going concern consideration.

The Financial Statements (FS) Auditors' Letter of Engagement was presented for the Committee's approval.

### **Audit Findings Report**

The FS Audit Findings report was presented by Ms Watson. She addressed the matter of going concern. Management and Governors were required to assess the College's ability to operate as a going concern, which required assurances on solvency for 12 months from the date of signing the 2016/17 accounts. They needed to know the EFS outcome and the conditions attached, and whether the £2.5m Lloyds Bank overdraft facility would be approved in place of the Revolving Credit Facility. It was noted that, if approved, the EFS could only be confirmed up to July 2018 and this did not give governors the required 12 months assurance. Further clarification was being sought from the ESFA on this matter.

Ms Watson described the options for the Audit opinion which would need to highlight any material uncertainties. Whilst the auditors were comfortable with the numbers in the accounts, they could not at this stage provide an audit report that would adequately inform the Committee or the Board.

It was therefore suggested to delay the consideration of the accounts until the January meeting of the Corporation. It was suggested the meeting of the Finance Committee scheduled for 26 January should be a joint meeting with the Audit Committee, immediately prior to the Corporation meeting on that day.

Ms Watson and Ms Doherty presented the FS Auditors' review and findings on the significant risks as detailed in the audit report. This included highlighting the significant assumptions regarding the valuation of the Dewsbury campus, depreciation, impairment and pension scheme.

There remained only one outstanding control deficiency in relation to a fixed assets register, which was regarded as a good position to be in. One new control recommendation related to governor expenses and all governors and staff were to be reminded to make expenses claims timeously.

A 'Limited' assurance opinion was to be given on the Regularity Audit, with no issues to report on the College's use of funding.

The Chair thanked the FS auditors for their comprehensive report which seemed to be a very positive report overall. He noted that this contrasted with the financial notice to improve. Ms Watson agreed that the audit was very positive and noted that many issues were out of the College's control. She offered to provide an awareness session reminding Committee members of their role and responsibilities.

**RESOLVED:**

- i. to receive the reports;*
- ii. approve the FS Auditors' Letter of Engagement;*
- iii. to receive the FS Auditors' Audit Findings Report.*

**10. Fraud Register**

The Committee received the latest version of the Fraud Register. There were no entries.

**RESOLVED: to receive the report.**

**11. Assurances for Key College Risks**

As requested by the Committee, Mr Riley presented a report summarising the sources of assurance for each of the College's key strategic risks. This was based on the reviews undertaken or planned by Internal Audit, External Audit and other agencies between 2006 and 2018. In 2015 - 2018 there were 18 Governance, Cyclical and Value for Money Reviews, 3 Financial Statements reviews (each with 38 components) and 29 other reviews. In addition, there were other internal sources of assurance such as process controls and checks, management controls, senior management oversight and college governance.

The Chair welcomed the comprehensive report. The Principal noted that it demonstrated the significant range of assurance that was carried out.

Mr Dearnley noted that all areas of risk identified by IAS when appointed were covered within the cycle of business.

Ms Watson commented favourably on the report and noted that many other Colleges were moving to a Board Assurance model such as represented by the report.

**RESOLVED: to receive the report.**

**12. Whistleblowing Report**

The Clerk presented a report on the College's Public Interest Disclosure (Whistleblowing) arrangements. There had been no complaints under these procedures received during 2016/17 and to date.

The report also included details of the communications and training that had been completed in 2016/17 in order to ensure awareness of the procedures.

**RESOLVED: to receive the report.**

**13. Publication of papers and Declaration of Confidentiality**

**RESOLVED: that the papers on Members' Report and Financial Statements and Audit Findings report were to be declared confidential under Clause 17(2)(d) of the Instrument of Government.**

**14. Date of next meetings**

**Joint meeting of the Audit and Finance Committees, Friday 26 January, 1pm**

**Audit Committee, Monday 5 March 2018, 3.30 pm**

*The Chair thanked all those involved in the preparation for the meetings, mindful of the additional pressures presented by the current financial position.*