

Kirklees College Corporation

AUDIT COMMITTEE

Minutes of a meeting held at 15:30-17:45 on 1 July 2019 at the Huddersfield Centre

Present: Dr A Williams Independent member (chair)
 Dr A Conn Independent member
 Mr M Pearmain Co-opted member

Attendance: X/5 = 100% KPI 80% Quorum: 3

In attendance: Mr M Dearnley Kirklees Council IAS
 Ms M Gilluley Principal and Chief Executive
 Ms J Green Clerk to the Corporation
 Ms R Meara Executive Finance Director
 Ms D Watson Grant Thornton
 Ms K Doherty Grant Thornton

Item	Action/ Report Item
CLOSED SESSION	
0	MATTERS RELATING TO THE COMMITTEE'S REMIT AND ANY ISSUES ARISING FROM THE AUDITS
i	The Clerk reminded the meeting that the purpose of the closed meeting was to provide the Committee with the opportunity for candid questioning of and private discussions with the external and internal auditors, and for the auditors to communicate privately and candidly with the Committee.
ii	Martin Dearnley ("MD") of Kirklees Council Internal Audit Service ("KCIAS"), had no issues to share; nor did Deborah Watson ("DW") of Grant Thornton, except to say thank you to the Corporation for reappointing her firm as external auditors for a further term.
iii	There being no questions from members, the Committee welcomed the management attendees to the meeting.
<i>15:35 Rebecca Meara and Marie Gilluley joined the meeting.</i>	
PRELIMINARY ITEMS	
1	WELCOME AND INTRODUCTIONS
i	Introductions were made.
ii	The Clerk said although due notice had been given and a quorum was present, the Committee was carrying a vacancy in its minimum membership, hence it was not properly constituted. She said there was no mechanism for filling a vacancy outside of a full Corporation meeting. As the risk was low, she and the Chair felt it did not warrant calling a special meeting of the Board and were minded not to postpone the meeting but to proceed on a risk basis and seek to ratify any decisions at a later date. The Committee agreed with this and the Chair declared the meeting open.

Item		Action/ Report Item
2 i ii	<p>APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST</p> <p>Apologies were received from Independent member David Keeton.</p> <p>Each member confirmed that they had no direct or indirect interest in any way in the business to be transacted at the meeting, which they were required by the Instrument of Government to disclose, other than those matters that had previously been disclosed.</p>	
3 i	<p>APPROVAL OF MINUTES OF THE PREVIOUS MEETING</p> <p><u>RESOLVED:</u></p> <p>(i) To approve the minutes of 4 March 2019 as an accurate record.</p>	
3(i) i	<p>MATTERS ARISING NOT ON THE AGENDA</p> <p>The Committee was pleased to hear that, since the previous meeting, the percentage of staff who had completed the mandatory data protection training module had increased from 60% to 81%. Executive Finance Director Rebecca Meara (“RM”) said staff had been allocated admin time and instructed to complete it by the end of July.</p>	
3(ii) i ii iii	<p>UPDATE ON AGREED ACTIONS</p> <p><u>Item 31 – Internal Audit Reports</u></p> <p>Members were surprised to hear from MD that the reserve audit provided for within the 2018/19 internal audit plan and discussed at Item 31 of the previous meeting’s minutes would not be going ahead. MD explained that the College had used up its full allocation of audit days due to previous audits overrunning. RM said she had not been made aware of this and in fact had recently been discussing plans for the reserve audit with MD’s colleague.</p> <p>Members expressed disappointment that KCIAS had not communicated this risk earlier. They asked why there was no mechanism for reporting on the use of allocated hours and agreed that arrangements must be put in place with the new internal audit service provider to track use of time.</p> <p>Action: The Executive Finance Director to request a timesheet from the Council, showing how the time allocated was used.</p>	RM
INTERNAL AUDIT		
4(i) i	<p>INTERNAL AUDIT PROGRESS REPORT</p> <p>MD spoke to the report, saying four pieces of work had been completed in 2018/19, including one incomplete audit carried forwards from the previous year.</p>	
4(ii) i	<p>IA REPORT: OPERATIONAL BUDGETS AND MONITORING</p> <p>The internal audit of operational budget monitoring and control arrangements had yielded a ‘Substantial Assurance’ opinion, with one ‘Significant¹’ recommendation and three ‘Merits Attention²’ recommendations.</p>	

¹ meaning ‘necessary to improve the control environment and thereby avoid exposure to a risk to the achievement of the objectives of the system, process or location under review’

² meaning ‘advised to enhance control or improve operational efficiency’

Item		Action/ Report Item
ii	MD said the overall finding was that the College had a 'rigorous annual budgeting process with regular scrutiny' and a 'substantially successful monitoring and reporting system'. Members agreed that this was very positive, particularly given the changes to the operational budget monitoring process and to budget holder responsibility since the introduction of the new finance system in 2017, as well as the 2018 restructure. They offered their congratulations to relevant staff.	
iii	The 'Significant' recommendation in the audit report concerned the use of a 'Fund Checker' function in the finance system. KCIAS had advised that zero budgets should be input against cost codes with no budget allocated to them to prevent orders being raised and RM said while this would be implemented in some cases, in others it would not be appropriate, for example where there were cost codes for trips and activities which are money-in, money-out.	
iv	Noting that the 'Merits Attention' recommendations were around training and the proper recording of virements, the Committee discussed the adequacy of budget holder induction training, emphasising the importance of cultivating an accountability culture. RM said management was becoming more proactive through delivering masterclasses and encouraging budget holders to engage with training.	
v	Corporation Report: The Committee is pleased to report that the audit of operational budget monitoring and control arrangements yielded a 'Substantial Assurance' opinion, with one 'Significant' recommendation and three 'Merits Attention' recommendations. The 'Significant' recommendation is to be implemented by September 2019: management will, where appropriate, block expenditure against cost codes with no budget allocation by inputting a zero budget against them on the finance system. The Committee will monitor progress.	Report Item 1
4(iii)	IA REPORT: PERFORMANCE MANAGEMENT PEER PROCESS	
i	MD presented the findings of the Performance Evaluation and Enhancement Review ('PEER') audit, saying it had yielded an 'Adequate Assurance' opinion, which should be considered 'good'.	
ii	The Committee acknowledged KCIAS's overall finding that a review of current arrangements should take place, noting that internal discussions about the process, as well as about quality improvement priorities more generally, had reached the same conclusion. A member remarked that the College had made progress in understanding the weaknesses in its current arrangements and designing a better and more structured approach since the audit of the PEER process was scoped, and this was agreed.	
iii	The Principal, Marie Gilluley ("MG") said the audit recommendations were timely. Whereas the PEER process was still somewhat over-engineered, this was deliberate to some extent as a key objective had been to familiarise staff with their wider accountabilities, i.e. not just around measures of student performance but also in terms of the financial viability and resourcing of their curriculum areas. She said initially, the list of things to monitor had been substantial and it had been pared down gradually on a risk basis. There had followed a complete restructure, which focused on positioning accountability at the right level and getting curriculum area managers engaged with accountability issues.	
iv	MG cautioned that audit recommendation R4 ("Performance against all PEER targets to be reported periodically to Governors") should not be taken to mean that what is reported to the Corporation is different from what is reported through the PEER process; it is only the level of granularity that is different.	

Item	Action/ Report Item	
v	While the need to review, streamline and improve the PEER process was acknowledged. there was strong agreement that it had impacted positively in terms of highlighting individual accountabilities. The need for a performance dashboard to support the process was emphasised and MG said its development, as members would know, was taking longer than anticipated. RM said once the dashboard was in place, it would support managers' daily routine monitoring, so that they would be very familiar with the data by the time meetings came around.	
vi	Following discussion, the Committee agreed to report to the Corporation as follows:	
v	Corporation Report: The audit of the PEER (Performance Evaluation and Enhancement Review) process yielded an 'Adequate Assurance' outcome, with four 'Significant' recommendations and two 'Merits Attention' recommendations. The recommendations were timely but they should not surprise or unduly concern Governors, as they relate to issues that have previously come up in Corporation discussions such as the need to prioritise and to be more specific when allocating actions and the need for SMART ³ targets. The Committee had sight of the management action plan for implementing the recommendations and emphasised the need for any plan to be fluid, accommodating of other developments as part of the culture change programme, and flexible around delivery dates.	Report Item 2
5	ROLLING AUDIT ACTION REVIEW	
i	Members were pleased to see a higher level of completion since the previous report. They noted that the 'Significant' recommendation from the Health & Safety – Work Placements Audit, as well as the 'Fundamental' ⁴ recommendation from the Major Incident Planning audit, and two of the three 'Significant' recommendations from the New Finance System Implementation Audit had been implemented in full (with the third 'Significant' recommendation ready to be ticked off pending a software update).	
ii	Noting that a 'Significant' recommendation from the Major Incident Planning audit (R3: introduction of a risk assessment process) remained outstanding and that the completion date had been put back in anticipation of the appointment of a new Director of MIS ⁵ and IT, a member asked whether there was scope to take interim steps to reduce the risk. Through questioning management, the Committee ascertained that what had started off as a 'Significant' risk was no longer so high a concern and there was agreement that the minutes should record that fact.	
iii	RM drew attention to the 'Merits Attention' recommendations outstanding from the 2015 audit report VAT Review, saying she expected to see good progress over the summer and completion in the early part of 2019/20. This was noted.	
iv	Finally, RM highlighted that a 'Significant' recommendation on the Internal Progression Process audit was overdue for implementation. She said in terms of progress, the progression enrolment data for 2017/18 had been discussed with curriculum staff as part of the performance management process, and targets had been agreed for the current year. However, the recommendations relating to frequency and content of reports were still in implementation.	
v	There was discussion about whether future updates should include 'Merits Attention' recommendations and the Clerk raised a concern that, in omitting them completely from the monitoring process, the Committee might not fulfil its Post 16 Audit Code of Practice remit around the monitoring of the implementation of recommendations	

³ Specific, Measurable, Achievable, Relevant and Time related

⁴ meaning 'requiring immediate action, which is key to maintaining an appropriate control environment

⁵ Management Information System

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vi	<p>arising from any reports of audit and assurance providers. The Committee agreed that, as a compromise, the 'Merits Attention' recommendations should appear in the table on the front sheet of the report for information, in the expectation that they would not be discussed in detail in the normal course of business.</p> <p>Corporation Report: Good progress is being made on the implementation of audit recommendations; although there are some 'Significant' recommendations outstanding, the areas in question have been de-risked since the audit, hence the Committee has no concerns to share with the Board. There are currently no external audit recommendations.</p>	Report Item 3
EXTERNAL AUDIT		
6	DRAFT EXTERNAL AUDIT PLAN 2018/19	
i	<p>Deborah Watson ("DW") and Katy Doherty ("KD") presented Grant Thornton's draft external audit plan ("plan"), identifying the proposed audit scope and drawing attention to key items as follows.</p> <ul style="list-style-type: none"> ➤ The College was forecasting EBITDA of £2.8m for the financial year, largely as a result of the drawdown of the funds from the Restructuring Fund; ➤ Financial performance was on budget, albeit with some slight variations in certain areas; ➤ The College had taken possession of the Pioneer building and work was due to start on the 44 week fit out, the aim being to open to students by 2020. There was a shortfall in the budget of around £300,000, which management was responding to with a suite of interventions; ➤ There was a risk of potential redundancy costs before the year-end; ➤ The Wheelwright Centre sale was in negotiation and would be reported in the Financial Statements as a post balance sheet event if the sale completed; and ➤ A clause in the Process Manufacturing Centre grant agreement required the College to pay £1.4m to the LEP in February 2026. The College and the LEP were in discussions on this, as it was thought to be an error of drafting, but it might need to be recognised in the Financial Statements as a liability. 	
ii	<p>The Committee expressed concern about the final item and asked RM for more details. RM said when the site for the Process Manufacturing Centre was purchased, the vendor refused to sell it unless the College purchased an adjacent piece of land as well. The LEP grant funding was used for both, the intention being that the grant agreement would contain an overage clause stipulating that the excess grant funding would be repayable in the event of the College disposing of the second piece of land. Unfortunately, and due to what both the LEP and the College believe to have been an error of drafting, the grant agreement in fact said that the College would repay the excess grant in any event in 2026.</p>	
iii	<p>The Committee noted the risk to the College's loan to income ratio, and hence its Education and Skills Funding Agency Financial Health Score, should the auditors determine that the grant funding must be treated as a loan for accounting purposes.</p>	
iv	<p><u>Financial Reporting Updates</u></p> <p>KD highlighted that the College Accounts Direction 2018 to 2019 had been released. A major change was that Annex D had been substantially updated to include additional reporting and transparency requirements, particularly around the remuneration of senior employees. She said Grant Thornton would assist as required.</p>	

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v	<p>KD drew attention to the 2017 amendments to FRS 102 and the updated Statement of Recommended Practice for Further and Higher Education (applicable from 1 January 2019). She said she understood the College would not adopt them early.</p>
vi	<p><u>Significant Risks</u></p> <p>DW guided members to pages 6 to 8 of the plan, highlighting the mandatory risks around revenue recognition, management override of controls and pension provision. She said part of Grant Thornton's audit work would be to obtain details of whether the 2018 High Court Guaranteed Minimum Pensions ruling and the Court of Appeal judgement in the McCloud case had been factored into the assessment of pension liabilities from the Local Government Pension Scheme actuaries and whether the treatment aligned to the latest position in the sector.</p>
vii	<p><u>Other Risks</u></p> <p>DW detailed the risks more specific to the College, in particular the risk posed by the significant loan balances, including the accounting treatment of the loan repayment holiday the College had agreed with Kirklees Council.</p>
viii	<p><u>Going Concern</u></p> <p>DW said the work would be similar to previous years' work. She observed that there were tight measures to be met in respect of the Restructuring Fund and highlighted that Grant Thornton would look at covenant compliance as part of the audit.</p>
ix	<p><u>Timeline and Logistics</u></p> <p>It was clarified that both Grant Thornton and College management were happy with the timeline.</p>
x	<p><u>Fees, Other Matters, and Independence</u></p> <p>DW said there were no matters which Grant Thornton considered might impact the audit team's independence and objectivity. This was noted.</p>
xi	<p>Grant Thornton's proposed fee for the forthcoming period (page 11) was discussed. Members noted that it represented a £1,025 increase on the previous year's fee – but the increase primarily related to the Restructuring Fund Audit Certification (a requirement of the money received), which was an additional service. There was agreement that the proposed fee should be recommended to the Board.</p>
xii	<p>It was noted that Grant Thornton would be providing training for the Corporation as part of the overall service package, the topic and format to be agreed.</p>
xiii	<p><u>Committee's Conclusions and Advice to the Corporation</u></p> <p>Following discussion, the Committee agreed to approve the plan and to advise the Corporation that it was satisfied with its scope and the objectives for the Financial Statements auditor set out within it, having no concerns to bring to the Corporation's attention. It was further agreed that a copy of the plan should be circulated to all Corporation members for information, in satisfaction of various of the Committee's reporting duties.</p>
xiv	<p><u>RESOLVED:</u></p> <ul style="list-style-type: none"> i. To agree the scope of the External Audit Plan ("the Plan") as proposed. ii. That the Committee is comfortable with the audit risks and proposed audit approach highlighted in the Plan; iii. A copy of the Plan to be circulated to all Governors for information;

Item		Action/ Report Item
	<p>iv. To advise the Corporation as follows:</p> <p>Corporation Report:</p> <p>a. The Committee agreed the content of the External Audit Plan (“Plan”) with the Financial Statements Auditor and is satisfied with the scope of the Plan and the objectives for the Financial Statements Auditor as set out in the Plan; it has no concerns to bring to the Corporation.</p> <p>b. In compliance with professional auditing standards, which require the Financial Statements Auditor to formally report to the Audit Committee on its independence, Grant Thornton advised that it considers there are no matters which may impact the audit team’s independence and objectivity. The Committee is required by its Terms of Reference to report on such matters to the Corporation. It has no concerns to bring to the Corporation.</p> <p>c. The External Audit fees set out in the Plan (£26,900) are recommended for Corporation approval.</p>	Report Item 4
OTHER BUSINESS		
7	<p>FRAUD REGISTER</p> <p>i EFD confirmed that, having made diligent enquiries, she was not aware of any actual, attempted or alleged acts of fraud or other irregularities.</p> <p>ii Corporation Report: Having made enquiries in accordance with its Terms of Reference, the Committee has no concerns to report in respect of fraud or other irregularities.</p>	Report Item 5
COMMITTEE SELF-ASSESSMENT		
8(i)	<p>PERFORMANCE 2018/19: REPORT & EFFECTIVENESS CHECKLIST</p> <p>i The Clerk referred to the Audit Committee Effectiveness Checklist she had circulated with the meeting packs and this was discussed. The Committee commented on the need for members to collectively have a broad understanding of the audit process, financial management and risk assurance. It was noted that significant work had been done around the appointment of the auditors this year.</p> <p>ii Expressing a high degree of confidence in management, members said reporting to the Committee was very clear and concise with the right level of detail. There was agreement that the positive comments in the draft performance report should stand. RM and MG responded that the Committee gave a good level of challenge, particularly around the internal audit reports.</p> <p>iii There was agreement that a performance improvement plan for the Committee might include improving the arrangements for inducting and training new members, and reviewing the role of the Committee in assessing the Statement of Governance and Internal Control.</p> <p>iv Action: The Clerk to incorporate members’ comments into the template report and circulate a draft version for approval.</p>	JG
8(ii)	<p>TERMS OF REFERENCE</p> <p>i The Clerk drew attention to the redline version of the Committee’s Terms of Reference, explaining that the majority of the changes she was proposing were</p>	

Item		Action/ Report Item
ii	aimed at bringing the Terms of Reference in line with the Post 16 Audit Code of Practice. She reminded the meeting that the Committee was not fully constituted, saying this was partly due to the Corporation setting a very ambitious minimum membership over and beyond what is required for good governance, hence she was also recommending that the minimum membership should be reduced.	
iii	Corporation Report: The Committee has reviewed its Terms of Reference and recommends various amendments to reflect the requirements of the Post 16 Audit Code of Practice, and to reduce the minimum membership to a more achievable number, albeit with the intention of seeking more members where possible.	Report Item 6
8(iii)	WORK SCHEDULE AND MEETING DATES 2019/20	
i	In terms of the meeting dates in 2019/20, the Committee noted that the ESFA had moved the deadline for the annual return back from Autumn 2019 to 31 January 2020 and agreed that management should look at adjusting dates to reflect this.	
MATTERS TO NOTE AND ADMINISTRATION		
9	DATE OF NEXT MEETING	
i	Monday 23 September 2019, 15.30. The Chair's apologies were noted in advance.	
10	PUBLICATION OF AGENDA PAPERS	
i	It was agreed that the External Audit Plan paper should remain confidential.	
CONFIDENTIAL SESSION WITHOUT AUDITORS		
<i>[time] Deborah Watson, Katy Doherty and Martin Dearnley left the meeting.</i>		
11	CONFIDENTIAL MINUTES OF THE PREVIOUS MEETING: 4 MARCH	
i	<u>RESOLVED:</u> To approve the confidential minutes of 4 March 2019 as an accurate record.	
12	APPOINTMENT OF INTERNAL AUDIT SERVICE FOR 2019/20	
i	RM drew attention to a report on the outcomes of the internal audit service tender exercise, saying the frontrunner was a firm called TIAA, which promotes itself as a specialist provider of internal audit, counter fraud and business assurance services. She said the interview panel, which included the Committee chair and Committee member David Keeton, found TIAA's solutions-focused approach refreshing and was impressed by their sector knowledge; in addition, the overall cost of the service would not be materially more and the increase could be managed within the envelope of monies set aside for internal audit.	
ii	The Committee noted the content of RM's report and agreed that TIAA should be recommended for appointment, the report to be shared with the Corporation.	
iii	Action: Clerk to share the confidential report on the internal audit service tender exercise with all Governors.	JG
iv	Action: Proposals for the internal audit programme for 2019/20 to be sent out before the next Committee meeting.	RM
v	Corporation Report: The Committee recommends that the Corporation appoint internal audit firm TIAA as the College's internal audit service provider for 2019/20.	Report Item 7

Items of Report for Corporation

Item	Details	Minute
1.	The Committee is pleased to report that the audit of operational budget monitoring and control arrangements yielded a 'Substantial Assurance' opinion, with one 'Significant' recommendation and three 'Merits Attention' recommendations. The 'Significant' recommendation is to be implemented by September 2019: management will, where appropriate, block expenditure against cost codes with no budget allocation by inputting a zero budget against them on the finance system. The Committee will monitor progress.	4(ii)
2.	The audit of the PEER (Performance Evaluation and Enhancement Review) process yielded an 'Adequate Assurance' outcome, with four 'Significant' recommendations and two 'Merits Attention' recommendations. The recommendations were timely but they should not surprise or unduly concern Governors, as they relate to issues that have previously come up in Corporation discussions, such as the need to prioritise and to be more specific when allocating actions, and the need for SMART targets. The Committee had sight of the management action plan for implementing the recommendations and emphasised the need for any plan to be fluid, accommodating of other developments as part of the culture change programme, and flexible around delivery dates.	4(iii)
3	Good progress is being made on the implementation of audit recommendations; although there are some 'Significant' recommendations outstanding, the areas in question have been de-risked since the audit, hence the Committee has no concerns to share with the Board. There are currently no external audit recommendations	5(vi)
4.	<p>a. The Committee agreed the content of the External Audit Plan ("Plan") with the Financial Statements Auditor and is satisfied with the scope of the Plan and the objectives for the Financial Statements Auditor as set out in the Plan; it has no concerns to bring to the Corporation.</p> <p>b. In compliance with professional auditing standards, which require the Financial Statements Auditor to formally report to the Audit Committee on its independence, Grant Thornton advised that it considers there are no matters which may impact the audit team's independence and objectivity. The Committee is required by its Terms of Reference to report on such matters to the Corporation. It has no concerns to bring to the Corporation.</p> <p>c. The External Audit fees set out in the Plan (£26,900) are recommended for Corporation approval.</p>	6(xiv)
5.	Having made enquiries in accordance with its Terms of Reference, the Committee has no concerns to report in respect of fraud or other irregularities.	7(ii)
6.	The Committee has reviewed its Terms of Reference and recommends various amendments to reflect the requirements of the Post 16 Audit Code of Practice, and to reduce the minimum membership to a more achievable number, albeit with the intention of seeking more members where possible.	8(ii)(iii)
7.	The Committee recommends that the Corporation appoint internal audit firm TIAA as the College's internal audit service provider for 2019/20.	12(iv)