



**MINUTES OF THE AUDIT COMMITTEE OF THE
NORTH EAST SURREY COLLEGE OF
TECHNOLOGY FURTHER EDUCATION
CORPORATION HELD ON FRIDAY 07 DECEMBER
2018 AT 11.00 IN THE BOARD ROOM (SP216)**

PRESENT	IN ATTENDANCE
Ms Maureen Kilminster (Chair) Mr Kabir Shaikh Mr Simon Enoch Ms Liz Lawrence	Ms Laura Raynes – RSM Ms Frances Rutter - Principal Ms M Vetrone - Deputy Principal, Finance & Resources Mr Graeme Hodge – Staff governor (Observer) Mr Rajeev Shaunak – MHA Ms Elizabeth Craig - MHA
Attendance = 100%	Mr D Round - Clerk to the Corporation

01.18	CONFIDENTIAL PRE-MEETING BETWEEN MEMBERS OF THE COMMITTEE AND AUDITORS ONLY
A pre-meeting took place involving members of the Committee and auditors only.	
02.18	APOLOGIES FOR ABSENCE
There were no apologies. The Chair welcomed Ms Lawrence and Mr Enoch to their first meeting.	
03.18	DECLARATIONS OF INTEREST
Ms Rutter declared an interest as an unremunerated director of NBS Ltd, a wholly-owned subsidiary of NESCOT and also as an unremunerated director of NESCOT Enterprises Ltd, a wholly owned subsidiary of NESCOT. Ms Kilminster declared an interest as the former Principal of a college in Surrey.	
04.18	MINUTES
The minutes of the meeting held on 22 June 2018 were approved as a correct record.	
05.18	MATTERS ARISING
36.1 Learner Numbers Systems – the Deputy Principal confirmed that there had been no clawback in 2017/18.	
37.17 Follow-up schedule arising from previous audit report recommendations – the Chair noted the action in the minutes from 22 June regarding the IT refresh project in the summer. It was explained that the IT refresh project had been finished in time but that it hadn't been possible to undertake the full migration of all systems because it requires the full close-down of the College for 2 weeks. This was now planned for the Christmas/New Year College closure. The Chair queried whether it was not possible to have closed the	

College in the summer. It was noted that the College was still busy over the summer with full cost courses, Osteopathic Medicine students from ICOM, Italy, apprenticeships and professional staff on campus. In response to questions from the Committee about the cyberattack in the autumn term, the College confirmed that the College was in a much more secure position regarding the protection of its IT assets but that the upgrade and migration of systems to the new infrastructure needs to be completed as soon as possible. Backups were stored securely in the Cloud. It was emphasised that those systems that had been migrated to the new infrastructure were not affected by the attack; the timing of the attack had been very unfortunate.

The Clerk explained that in consultation with the Chair and Vice Chair of the Corporation and the Chair of the Audit Committee, the matter of the IT cyberattack had been referred to the College's internal auditors to undertake a full review. The scope of the review would be circulated to members of the Committee for comment (**ACTION: DR/MV**). The Committee expressed the wish that the report be available for the March 2019 meeting, even if in draft.

The Clerk also advised the Committee about a whistleblowing public disclosure declaration that had been made in the past few days regarding the IT issues at the College. Following appropriate consultation with members of the Corporation, it had been agreed to refer the matter of an investigation to the College's internal auditors. This was a separate commission from the IT review and would be undertaken by different teams in RSM, who were the College's internal auditors.

38.17 Internal Audit Plan 2018/19 – internal auditors confirmed that additional assurance work had been undertaken on aspects of the higher education student experience as part of the student journey audit assignment.

39.17 Draft External Audit Strategy for the 2017/18 Accounts – the Deputy Principal was able to confirm that the figure for materiality reported at the last meeting was correct.

06.18	DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS, 2017/18
06.1 Draft Annual Report and Financial Statements 2017/18; management letter of the external auditors; and letter of representations	<p>Representatives of the College's external auditors attended the meeting to present their management letter to accompany the College's annual report and financial statements for 2017/18. They noted:</p> <ul style="list-style-type: none"> • The audit opinion was that the financial statements were 'unqualified': there were no matters of concern found as part of the audit. The audit has proceeded as planned. • The auditors had been unable to obtain the accounts of NCL¹, of which the College was a shareholder at the

¹ NESCOT Consortium Limited

	<p>commencement of the financial year. The College concluded the disposal of its interest in NCL on 17 August 2017 and therefore transactions of NCL in 2017/18 that will affect NESCOT are likely not to be material. For this reason the view of the auditors was that it was not necessary to produce consolidated group accounts.</p> <ul style="list-style-type: none"> • Recommendations made in previous audit reports have been actioned appropriately. • There was one recommendation for 2018 relating to the sign-off of the College's credit card statement in July 2018 by the Deputy Principal, which had been acknowledged and actioned. <p>The review of the College's financial performance for the year ending 31 July 2018 was presented to the Committee. The deficit in the NESCOT Group accounts reflected the circumstances and timing of the disposal of the College's interest in NESCOT Consortium Limited, which was the legal vehicle for its operation of the College in Jeddah, Saudi Arabia. NBS received a cash dividend payment of £328k from NCL in 2016-17, which allowed a surplus to be shown in the 2016-17 Group accounts. The College's share of the remaining assets of NCL was £428k with a sale price of £1. With the sale being completed in 2017-18, the loss on investments on disposal of £428k materialised in 2017-18 and are recognised in the Group accounts. In addition, NBS paid Capital Gains Tax of £70k. The cash payment of £328k received by the College in the current year was paid by NBS as a donation from reserves earned in 2016-17 and was therefore income to the College but not income to the Group this year, and was therefore removed on consolidation in 2017-18. The total of these transactions was £826k and represented in the consolidated statements as the movement between the College surplus of £26k and the Group loss of £800k.</p> <p>Members of the Committee noted that bad debts had increased by £90k. There was a single large debt of £250k from the College's partner in Italy. The College commented that the debt was being chased and it was confident that payment would be made.</p> <p>Comparative benchmarking data indicated that the College's overall financial position remained favourable compared to the rest of the sector.</p>
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06.2 Regularity Self-assessment Questionnaire	<p>RESOLVED: that the Committee notes the management letter of the external auditors and the assurance given in relation to the annual report and financial statements for 2017/18.</p> <p>The regularity questionnaire was reviewed by the Committee. The self-assessment questionnaire provides support to the Corporation in drafting its statement on regularity, propriety and compliance. It had also been presented to the Finance and General Purposes Committee. The drafted questionnaire referenced the cyberattack on the College's IT systems and the recent public interest whistleblowing disclosure which had been referred to the College's internal auditors for investigation.</p> <p>Representatives of the College's external auditors confirmed that they had reviewed the questionnaire and were happy to provide a statement of assurance.</p> <p>RESOLVED: that the regularity self-assessment questionnaire be noted.</p>
07.18	<p>ANNUAL REPORTS</p> <p>07.1 Internal Audit Annual Report 2017/18</p> <p>It was noted that internal audit provides the Corporation, the Principal and senior management with assurances on the adequacy of the College's internal control system.</p> <p>The College's internal auditors presented their annual report to the Audit Committee. In 2017/18 they undertook audit assignment in the following areas: -</p> <ul style="list-style-type: none"> • Apprenticeships • GDPR Readiness • Curriculum Planning • Teaching Staff Utilisation • Key Financial Controls • Learner Number Systems • Follow Up <p>Risk management and governance was given a green assurance opinion based on their audit assignment work and attendance at Audit Committee meetings. The College had made 'reasonable' progress in implementing audit recommendations.</p> <p>The opinion of the auditors was that 'the organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management,</p>

<p>07.2 Draft Annual Report of the Committee</p>	<p>governance and internal control to ensure that it remains adequate and effective'.</p> <p>RESOLVED: that the annual report of the College's internal auditors be noted.</p> <p>The draft annual report of the Committee was reviewed. The report covered all matters considered within the remit of the Committee up to the date of the current meeting. Details of the audit opinion provided by the College's internal auditors were presented including the progress made by the College in implementing audit recommendations. Reference was made to the cyberattack on the College and also the recently-notified whistleblowing public interest disclosure made in respect of the College's IT issues in the autumn term.</p> <p>The Committee was satisfied that issues arising from the audits carried out by the internal auditors and the external auditors/reporting accountants have been subject to the appropriate management response and that the necessary actions have been taken or will be taken.</p> <p>The Committee was not aware of any significant issues arising up to the date of the preparation of this report. The Committee believes that it has operated effectively and has acted in accordance with its terms of reference.</p> <p>Based on the information presented to it and subject to issues identified by the internal auditors and the external auditors being addressed, the Audit Committee is able to give substantial assurance about the:</p> <ul style="list-style-type: none"> adequacy and effectiveness of the College's audit arrangements, its framework of governance, risk management and control and its processes for securing economy, efficiency and effectiveness. <p>The Committee was of the view that the Governing Body has satisfactorily discharged its responsibilities as set out in the annual financial statements.</p> <p>RESOLVED: that the annual report of the Audit Committee be approved and signed by the Chair of the Committee for submission to the Corporation at its meeting on 13th December.</p>
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07.3 Annual Self-assessment report of the Audit Committee	The self-assessment report of the Committee was reviewed. It drew attention to the priorities for 2018/19 which was IT infrastructure and apprenticeships. RESOLVED: that the annual self-assessment report of the Committee be approved.
08.18	AUDIT REPORTS
08.1 Subcontracting Controls internal audit report and audit certificate	In compliance with the ESFA requirement that any subcontracting arrangements entered into by the College meets its strategic aims and enhances the quality of its offer to learners and is not a response to short-term funding objectives, the Committee reviewed a report on the College's subcontracting fees and charging policy for 2018/19. The policy and fees and charges in respect of subcontracting must be published on the College website. Lead providers who have subcontracted more than £100,000 of its funded provision in 2017-2017 to obtain a report from an independent auditor on the arrangements in place to manage and control their subcontractors. The College requested that this assurance was provided by the College's Internal Auditors, RSM. RSM provided an assurance certificate which was submitted to the ESFA on 01 October 2018. RESOLVED: the Committee noted the draft College Subcontracting Supply Chain Fees and Charging Policy 2018-19 and the assurance certificate provided by its internal auditors.
08.2 GDPR audit report	The advisory report (2017/18 audit schedule) of the internal auditors on readiness to deliver the requirement of the General Data Protection Regulations was considered. The audit covered business processes and data discovery; third parties; data ownership; data security system level controls; data storage and retention; data policy, roles and responsibilities; individuals' rights; consent; and data breaches. 6 recommendations were made to the College in respect of business processes and data discovery; third parties; data security system level controls; consent; and data breaches. College management had accepted the recommendations and were implementing them.
08.3 Apprenticeships	

	<p>The report prepared by the College's internal auditors on apprenticeships that commenced after May 2017 was considered by the Committee. This was a 2017/18 schedule report that was completed too late for the summer meeting of the Audit Committee. It was taken to the full meeting of the Corporation on 05 October 2018 because of some of the adverse judgements in the report.</p> <p>The internal auditors explained that the audit used the ESFA audit methodology; however, guidance on apprenticeship funding rules were released very late which had caused many colleges considerable difficulties. Subsequent clarifications from the ESFA had indicated that issues that might have been treated as funding issues were being interpreted as data issues.</p> <p>There were a significant number of management and control issues that emerged during the audit. A total of 12 recommendations were made in the report: 3 'high' priority actions; 5 'medium' priority and 4 'low' priority. The high priority recommendations were:-</p> <ol style="list-style-type: none">1. For all forty apprentices reviewed we could not identify any calculations for how the 20% off the job training had been quantified. Where the 20% off the job training has not been calculated for each learner at the start of the apprenticeship, the College may not plan sufficient delivery to meet this requirement. RECOMMENDATION: The College will record the contracted hours for each learner within the paperwork and then subsequently calculate the 20% off the job requirement from this. Once this has been calculated the College will clearly detail how this will be delivered and monitor progress against this.2. Where the College cannot evidence that learners have already achieved or are studying towards L2 English and/or Maths it is not complying with the funding guidance and the apprenticeship may therefore not be considered eligible for funding. RECOMMENDATION: The College will check learner's English and Maths qualifications at enrolment. Where the learner cannot provide evidence that they have achieved L2 the College will enrol them to these aims and ensure that the learner attends.
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	<p>3. Where the Commitment Statement does not comply with all elements of the funding guidance and is not an accurate reflection of the planned apprenticeship, the College is not complying with the funding guidance and funding may be at risk. RECOMMENDATION: The College will update the Commitment Statement to comply with the funding guidance. The College will also ensure that these are signed prior to, or at the start of, the apprenticeship.</p> <p>The Committee noted the comments of the auditors that the majority of the colleges they had audited also had difficulty in evidencing the 20% off the job requirement. Also many of the larger employers referred the Commitment Statement for legal advice, which had caused delays. Sector practice in relation to the English and mathematics issues varied.</p> <p>The overall opinion of the auditors was that</p> <p style="padding-left: 40px;">‘In completing the agreed programme of work on North East Surrey College of Technology’s (NESCOT) ILR return dated 2 March 2018, we have identified a number of exceptions where NESCOT has not complied with the Funding Rules. The exceptions identified have resulted in errors in the funding being claimed...’</p> <p>The College had accepted all of the auditor’s recommendations and an action plan had been prepared, led by the Deputy Principal (Curriculum and Quality).</p>
09.18	FOLLOW-UP OF INTERNAL AUDIT RECOMMENDATIONS

Analysis and progress tracking of the implementation of previous audit recommendations indicated that: -

- For 2013-14, 2014-15, and 2015-16, all audit recommendations have been implemented or superseded, and tracking worksheets closed.
- For 2016/17 30 audit recommendations were raised and 27 implemented by the College management. Three audit recommendations are in the process of implementation in the area of Commercial Activities, related to the development of SWOT analysis for an annual report; the drafting of a Commercial Strategy; and the documentation of more formal policies and procedures for the College’s commercial activities.
- 54 audit recommendations were identified from the audit work undertaken in 2017/18 academic year. 32 recommendations have been implemented; 16 recommendations relate to curriculum planning and are being proactively

progressed by the relevant College managers. There were 6 recommendations in relation to GDPR, 5 of which have been implemented.

The Audit Committee noted the additional audit work undertaken in relation to IT controls and the ASTM partnership. All of the ASTM recommended actions had been implemented; 5 of the 6 recommendations relation to IT had been progressed. The Committee was advised:

'The single remaining recommendation to be fully implemented relates to the IT Refresh Plan deriving from the IT Health Check. Remaining larger systems on an old server stack cannot be migrated to the new server stack until the College can close down for a two week period. This outstanding work is now scheduled to take place during the Christmas break 2018'.

The Committee noted that the College had commissioned an independent review of the IT issues experienced by the College in the autumn term and that a report would be prepared by a team at the College's internal auditors for presentation to the Committee.

RESOLVED: that the progress report on audit recommendations be noted.

10.18 RISK MANAGEMENT AND RISK ASSURANCE FRAMEWORK	
10.1 Strategic Risk Register	<p>The Committee reviewed the strategic risk register.</p> <ul style="list-style-type: none"> • There were 21 strategic risks in the register which was unchanged from the previously published register. • The significant risks had reduced from 8 to 4 i.e. <ul style="list-style-type: none"> – Risk 2: Failure of key information systems and loss of data for long periods of time in the event of a disaster or serious outage. – Risk 4: Failure to achieve funding body, devolved AEB, and apprenticeship recruitment targets. – Risk 19: Adverse changes in government policy and the external economic environment. • Strategic risks that had a changed risk assessment since the last register publication were <ul style="list-style-type: none"> – Risk 2: IT controls (increased risk assessment) – Risk 6: Non-compliance with Health & Safety, Safeguarding, Equalities legislation, GDPR, and other legal requirements may lead to legal action against the College, poor regulatory body judgements, unplanned costs, and damage to reputation. (lower risk assessment)

	<ul style="list-style-type: none"> – Risk 11: Failure to recruit and/or retain suitably qualified professional and teaching staff may lead to poor staff performance, decline in teaching quality, reputational damage and lower student recruitment and failure to achieve the College's key strategic priorities (lower risk assessment). – Risk 14: Failure of the curriculum offer to meet the needs of regulatory bodies, learners and employers, and in an increasingly competitive market, may lead to low achievement and success rates, failure to achieve success in inspection, failure to achieve student recruitment targets, significant reductions in funding, and damage to reputation (lower risk assessment) – Risk 15: Failure to develop and implement effective and robust business plans for international business may lead to failure to achieve income targets, failure to achieve key strategic priorities, and damage to reputation (lower risk assessment). – Risk 20: Failure to properly manage the College's commercial activities may lead to failure to meet financial targets, loss of sustainability, and loss of reputation (lower risk assessment). <p>The Committee was pleased to note that there was a bottom-up approach to risk assessment involving teams across the organisations, which was best practice. The staff governor observer commented that he was surprised that the risk assessment for key staff retention had decreased as number of key members of teaching staff had left last from the Public Services team to join other colleges. It was good, however, that staff had an input into the risk assessment process. It was also good practice that where the College had identified emerging significant risks in-year it had taken decisive action to commission independent audit reports i.e. the ASTM partnership.</p> <p>RESOLVED: that the strategic risk register report be noted.</p> <p>The Committee noted the involvement of the risk management group in risk management at the College.</p> <p>RESOLVED: that the risk management policy be approved.</p>
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10.2 Updated Risk Management Policy	The updated risk assurance map was presented. The risk assurance map described the independent and management assurances in relation to the College's strategic risks. It demonstrated that the Committee continued to receive a high level of assurance overall in relation to the College's arrangements for the management of strategic risks.
10.3 Risk Assurance Framework	RESOLVED: that the risk assurance map be noted.
11.18	INDEPENDENT REPORT ON ENERGY MANAGEMENT
	The commissioned report on energy management confirmed that the College was on the optimal tariffs and was achieving value for money in its energy management practice. The report was noted.
12.18	FRAUD STATEMENT
	The Deputy Principal advised the Committee that no allegations of fraud had been made and there no matters to be drawn to its attention.
13.18	HEALTH AND SAFETY REPORT
	No points of concern in relation to health and safety at the College were identified from the health and safety report although the Committee did request that action implementation dates be reviewed as some had passed. The College reported that the Health and Safety Manager at the College was also responsible for security and had been heavily involved in the DR team working on the recent IT issues.
14.18	ANY OTHER BUSINESS
	There was no further business.
15.18	DATE AND TIME OF NEXT MEETING
	Date and time of Future Meetings: Friday 15 March 2019 at 09.00am & Friday 21 June 2019 at 09.00am.

16.18	CONFIDENTIAL MATTERS
	<i>Representatives of the audit firms withdrew.</i>
16.1 Annual Performance Assessment of Auditors	This minute is redacted on the grounds of commercial confidentiality.
16.2 Re-appointment of the Auditors	

Signed Date

Ms Maureen Kilminster, Chair of the Audit Committee

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Version History / File Ref	c:\users\david\onedrive - north east surrey college of technology\nescot folders\nescot corporation\audit committee\ac 071218\minutes of the meeting\audit committee minutes 070318 approved by the chair.docx