

NON-CONFIDENTIAL MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 22 NOVEMBER 2017

Present:	Ainsley Cheetham (<i>Chair</i>)	
	Thelma Aye) External Governors
	Mark Leather)
	Susanna Cassey	External Member
In attendance:	Michael Harding	Internal Auditor, RSM
	Anna Spencer-Gray	External Auditor, RSM
	Peter France	Vice-Principal Finance and Resources
	Oona Cushen	Clerk to the Corporation

APPOINTMENT OF CHAIR

A/17/001 Ainsley Cheetham was nominated, seconded and duly appointed as Chair of the Audit Committee for 2017/18.

WELCOME AND APOLOGIES FOR ABSENCE

A/17/002 The Chair welcomed Anna Spencer-Gray to the meeting. Apologies for absence were received from Ian Haines (work commitment).

PRIVATE DISCUSSION BETWEEN GOVERNORS AND AUDITORS

A/17/003 This item was moved to the end of the meeting and is a confidential item for Corporation members only, under Section 41 of the Freedom of Information Act. Paragraphs A/17/051 to A/17/053 are, therefore, minuted separately.

DRAFT MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 17 MAY 2017

A/17/004 Governors requested that an update on the audit assurance requirements for the 20% off-the-job apprenticeship training under the national contract be given at the next meeting to be held in February 2018.

A/17/005 The minutes of the previous meeting, held on 17 May 2017, paper LMC/A/36/16, were agreed as a true and accurate record and duly signed by the Chair.

ACTION: Clerk to invite the Director of Apprenticeships and Employer Engagement and the Head of Faculty; Sports, Care and Arts to the next meeting of the Audit Committee, scheduled to be held in February 2018.

MATTERS ARISING

Committee Action Checklist

A/17/006 The Clerk advised that all actions were complete, with the exception of the audit assurance mapping exercise. This is a huge task and is still in progress, but a completed report will be presented at the next Committee meeting, scheduled to be held in February 2018.

A/17/007 The Committee noted and agreed the Committee Action Checklist, paper LMC/A/01/17.

ACTION: Clerk to add the Audit Assurance Mapping report to the agenda for the next meeting.

Michael Harding joined the meeting.

Review of Internal Audit Schedule 2017/18

A/17/008 The Vice Principal Finance and Resources referred Governors to paper LMC/A/02/17 and advised that the audit schedule is due to start in a couple of weeks' time. The apprenticeship funding audit was deferred, given the College has now undergone a full Education and Skills Funding Agency (ESFA) audit, the outcome of which was no recommendations. Governors should now consider whether these audit days are saved or are replaced by a different internal audit and, if so, in what area do Governors require further assurance.

In response to questions:

A/17/009 The outcome of the funding audit has provided assurance that funding has been used for its intended purposes, claims are submitted correctly and all appropriate funding controls are in place. In regards to apprenticeship delivery performance, the Board has previously referred matters to the Audit Committee to gain the relevant assurance that the correct processes were in place for delivering a national contract. It is incumbent upon the Committee to follow through that assurance after six months' delivery and validate the evidence through the data tracking systems.

A/17/010 Questions had previously been raised regarding how well the staff appraisal system linked to performance management and compliance, with a suggestion that an internal audit could review utilisation and compliance with the process. Following discussion with the Principal, it had been agreed that the Principal should be allowed time to review the system internally and implement any required changes. The Vice Principal Finance and Resources advised that the previous issues related to some appraisals being overly-generous or less rigorous than required. An internal audit, however, would only look at process and compliance as opposed to content, quality and tone. It was noted that performance management research evidences that people do not like appraisals and avoid, where possible. There is a cultural issue, not on accurate reporting, but around the performance management process that follows on from a staff review, e.g. detailed training and development plan for every member of staff. Performance management is about an individual improving performance and the oversight of that required development. Governors queried how further assurance could be provided to evidence that staff are being appropriately performance managed. It was clarified that the appraisal process for the senior team, not just senior postholders, has already been changed, with the Chair of the Corporation and the Chair of the Remuneration Committee now participating in all senior staff appraisals. The Committee agreed that full assurance had not yet been provided in terms of performance management and views from the full Corporation should be sought at the next meeting in December.

A/17/011 Governors were reminded that concerns had been previously raised around a whole College digital strategy, which has not yet been presented to Board, and how Governors can collate strategic intent to ensure any strategy is actioned in a timely manner. It was noted that reference to a digital strategy is included in the risk register. Concerns around the strategic digital direction of the College should be an issue for the full Board to ensure any strategy meets with the educational character and the vision for the College, with the Audit Committee focusing on risk assurance.

A/17/012 The Committee noted the Review of Internal Audit Schedule 2017/18, paper LMC/A/02/17, and it was agreed to seek the opinion of the full Board on areas where further assurance should be provided to Governors.

ACTION: Chair of the Committee to provide a full update at the next Corporation meeting and seek the opinion of the full Board in regards to areas where further assurance is required.

ACTION: Clerk to the Corporation to liaise with the Principal in regards to the 'Digital Strategy' for the College and presentation to the Corporation.

TERMS OF REFERENCE AND MEMBERSHIP OF THE COMMITTEE

A/17/013 The Clerk referred Governors to paper LMC/A/03/17 and advised that the Terms of Reference were detailed in the Standing Orders, previously approved by the Corporation. The objectives are taken from the Post-16 Audit Code of Practice and remain unchanged.

In response to questions:

A/17/014 Governors questioned whether the Committee could satisfy itself that it was doing everything possible to provide assurance to the Board on the adequacy and effectiveness of assurance arrangements and risk management. It was noted that this refers back to previous discussions around assurance mapping, and providing further detail on how assurance is provided for each identified risk and how this meets the terms of reference. Where it is felt there are gaps in assurance, Governors have requested internal audits as part of the annual plan. It was considered that assurance can be divided into three key aspects:

- 1) Overall risk and the risk register; Governors are provided with risks and mitigating actions and from managers' performance. There is also some reliance on the internal and external auditors to advise on trends within the sector and to determine whether they then apply to LMC.
- 2) The financial position is robust in terms of audit assurance.
- 3) There must also be reliable evidential data; the Education and Skills Funding Agency (ESFA) audit provided this in terms of funding and other key performance indicators are used to monitor success rates, attendance and other performance data. There is a robust reporting system in place to provide Governors with that assurance.

A/17/015 The Committee does have a special interest in the development of apprenticeship contracts, as this was a specific request for oversight from the Corporation, and managers have been asked to provide further assurance in this area. It was noted that the College has restructured how it delivers apprenticeships.

A/17/016 Governors commented on the upcoming curriculum compliance audit, and were hopeful that there would be no non-compliance with paperwork, e.g. missing signatures etc. as this has been a highlighted and repetitive issue. Subcontracting provision is as big a risk as apprenticeships, with reliance on the subcontractor to deliver. The ESFA also views subcontracting as a significant risk within the sector. The Vice Principal Finance and Resources advised responsibility lies with himself for the contracts and the specific faculty responsible for the curriculum delivery.

A/17/017 The Committee received and noted the Terms of Reference and Membership of the Committee, paper LMC/A/03/17.

ANNUAL REPORT 2016/17 OF THE AUDIT COMMITTEE

A/17/018 The Clerk referred Governors to paper LMC/A/04/17 and advised that this is a mandatory report which must be submitted to the funding agency and complies with the requirements of the Post-16 Audit Code of Practice. The reports details Committee business, audit reports received, membership, meetings and attendance, along with a brief summary on internal and external audit services, risk management, data quality, fraud, irregularity and whistleblowing.

A/17/019 The Committee discussed and approved the Annual Report 2016/17 of the Audit Committee, paper LMC/A/04/17, which will be presented to the Corporation on 6 December 2017.

AUDIT REPORTS

Internal Audit Annual Summary Report

A/17/020 The Internal Auditor referred Governors to paper LMC/A/05/17 and advised that this was a summary of the internal audit work undertaken during 2016/17 within the controls and scope agreed with the College. All planned audits were undertaken and the reports have previously been presented to the Committee. There were no high level priority actions and only a number of medium priority recommendations but with no particular concerns. The follow-up report will ensure that the proposed actions agreed with management are implemented. Sector briefings and benchmarking data has also been provided to the Committee throughout the year.

In response to questions:

A/17/021 Governors commented that it was healthy to have some management actions arising from internal audits as this meant that the auditors were being directed into the right areas for review. It was noted that the installation of the new IT servers is in implementation stage and will continue through until Christmas.

A/17/022 The Committee received and discussed the Internal Audit Annual Summary Report, paper LMC/A/05/17, which will be presented to the Corporation as evidence of assurance.

Education and Skills Funding Agency: Report of Independent Auditors on Funding Returns

A/17/023 This is a confidential item for Corporation members only, under Section 41 of the Freedom of Information Act. Paragraphs A/17/024 to A/17/025 are, therefore, minuted separately.

ANNUAL REPORT ON RISK MANAGEMENT, INCLUDING REVIEW OF RISK MANAGEMENT

A/17/026 The Vice Principal Finance and Resources referred Governors to paper LMC/A/07/17 and advised that this report provides a summary of the work undertaken in year, the current risk register and risk management strategy. The College Risk Management Group meets termly, comprises key managers from support areas and the Principal and is chaired by the Vice Principal Finance and Resources. The group reviews the College risk register, as well as the devolved risk registers at departmental level, as well as any arising issues, e.g. critical incidents, fire assessments or internal audit recommendations.

A/17/027 The Group met early November and updated the risk register. The changed risks are highlighted in the report. Two risks in relation to Prevent and critical incidents have been upgraded to contingency to recognise the heightened risk of a terrorist related incident. Students are not yet sufficiently trained and further training is being provided. Risk 4.00 has been increased to significant to reflect the College's current financial health grade, the large budgeted deficit for 2017/18 and early intervention by the ESFA, as previously discussed at Corporation. The College is not expecting the ESFA to be overly concerned at this stage, given the College's strong balance sheet and high cash reserves, but they will want assurance that the deficit is being tackled and there are plans in place to improve the overall financial position. It is possible that, with the improved 2016/17 outturn, that the College could return to a good grade. If this happened, early intervention could either be withdrawn or remain until the ESFA is satisfied that the budgeted deficit is being reduced.

A/17/028 There have been minor changes to the Risk Management Strategy, mainly to reflect changing job titles and roles. The core of the strategy remains unchanged as this has worked well over a number of years. There is a sub-group working on preparations for the new General Data Protection Regulations (GDPR) coming into force from May 2018.

In response to questions:

- A/17/029 There has been discussion with the external auditor in regard to downgrading the pension claim from significant to contingency. At this time, the risk remains as significant, mainly due to the size of the potential claim but there has been no action for several years and it is no longer included in the audit findings report. There is no definitive timescale for the claim to be closed, but there is no cash provision as no liability is considered.
- A/17/030 The Chair commented that risks 1.08 (failure to monitor arrangements for quality assurance), 3.02 (failure to obtain timely information) and 5.00 (failure to recruit staff of the required experience and expertise in certain areas) could be categorised higher than significant. It was also suggested that risks 1.04 (failure to appoint and develop appropriate senior staff) and 1.07 (key changes in senior personnel and insufficient performance management by Governors) should also be raised to a higher level.
- A/17/031 Governors were confident that they understood funding targets and that there were good processes in place to monitor those, but were less confident about the arrangements for quality assurance. All staff should be able to be held to account in regards their performance, with job descriptions that clearly document duties and responsibilities. Governors should challenge the Principal on monitoring performance management, training and development moving forward, as these will all identify where people are not performing and actions to be taken. It was noted that the Chair of the Remuneration Committee and the Chair of the Corporation are now directly involved in the appraisals for all senior staff, not just senior postholders. There is a more robust structure and the performance paperwork is significantly more in-depth than previously.
- A/17/032 Governors considered how these concerns about increased risk in relation to performance, quality and the ability to appoint the right people should be brought forward. It was suggested that these particular risks could become a standing item for specific review, or further controls could be added to mitigate the risks. Following further discussion, it was agreed that the Chair would raise these specific concerns as points of reference for discussion with the Corporation as a whole.
- A/17/033 The Committee discussed and agreed to recommend the Annual Report on Risk Management, including Review of Risk Management Strategy, paper LMC/A/07/17, to the Corporation for approval, subject to further discussion at Board on specified risks.**
- ACTION:** *Chair of the Committee to raise discussion at the next Corporation meeting in regard to increased monitoring of those risks the Committee deems to be higher than significant, namely:*
- 1.04 *Failure to appoint and develop appropriate senior staff.*
 - 1.07 *Key changes in senior personnel and insufficient performance management by Governors.*
 - 1.08 *Failure to monitor arrangements for quality assurance.*
 - 3.02 *Failure to obtain timely information.*
 - 5.00 *Failure to recruit staff of the required experience and expertise in certain areas.*

REVIEW OF AGREED ACTIONS ON AUDIT RECOMMENDATIONS

- A/17/034 The Vice Principal Finance and Resources referred Governors to paper LMC/A/08/17 and advised that this report tracks progress made against all audit recommendations, not just internal audit recommendations. Almost all of the recommendations had been completed, with the IT installation currently in progress.

In response to questions:

A/17/035 It was confirmed that the IT upgrades will include a partial UPS system being applied to certain parts of the network. It was considered too expensive to have a full UPS system on every switch and every server, but mitigation of risk would be minimal as it will only provide half an hour to complete shutdown.

A/17/036 Governors questioned further how a server room incident would be managed, as other industries have raised health and safety concerns in regards to noxious gas from overheating. It was explained that the current room is very full, but the new servers being installed are much smaller and there is fewer of them, so the space will be far more manageable. The College has sought advice from external consultants (JISC) and is confident that the right systems to move the College forward are being installed.

A/17/037 The Corporation received and discussed the Review of Agreed Actions on Audit Recommendations; paper LMC/A/08/17.

AUDIT FINDINGS REPORT (FINANCIAL STATEMENTS AUDITORS MANAGEMENT LETTER AND REGULARITY AUDITORS (OPINION) MANAGEMENT REPORT

A/17/038 The External Auditor referred Governors to paper LMC/A/09/17 and to the College Annual Report and Financial Statements 2016/17, paper LMC/A/10/17, which has been provided as a reference document for the Committee.

A/17/039 The final reconciliation remains outstanding and is expected to be known by early December. The format has been amended slightly to include the response to key areas following conclusion of the work. There are no material misstatements in regard to income recognition, the pension valuation and, therefore, pension liability, has been benchmarked against other schemes and appears reasonable, there are no issues in regards to management overrides of control. The auditor has supported the College as a going concern, given the prepared budgets and forecasts and the budgeted deficit is manageable with the current levels of reserves.

A/17/040 There were no significant issues on the regularity work undertaken as any potential issues were raised at the planning meeting and dealt with in advance. Section three (page 6) details any issues identified during the audit but are all reported as unadjusted items. The redundancy payment was not paid prior to the year-end owing to the staff member being on holiday but, as this was the intention, it has remained unadjusted. Intangible assets will need to be reviewed for the future, particularly in relation to software. Should the College invest in further software additions, these should be reported as intangible, rather than tangible, assets under FRS102. Payments for the outstanding debts have now been received, so there is no issue to report and the overtime provision has been released, as any claims must now be made in year.

A/17/041 There are no adjusted items, so the figures in the year-end accounts are the same as those reported to Governors in the management accounts throughout the year. The auditor recorded formal thanks to the Vice Principal Finance and Resources, the Finance Manager and their team for what was a very clean audit. There have been changes to the audit team this year to ensure objectivity from an audit perspective and, overall, this was a very clean and well managed audit.

Financial Statements

A/17/042 It was noted that the accounts do reflect the figures provided to Governors throughout the year. The balance sheet remains very health and although there is an operating deficit, the College should be able to absorb this within its cash flow.

In response to questions:

A/17/043 Governors commented that the sector briefings were very useful, providing a strategic overview of the sector.

A/17/044 The Committee discussed and agreed to recommend the Audit Findings Report (Financial Statements Auditors Management Letter and Regularity Auditors (Opinion) Management Report), paper LMC/A/09/17, to the Corporation for approval.

A/17/045 The College Annual Report and Financial Statements 2016/17; 1 August 2016 – 31 July 2017, paper LMC/A/10/17, will be independently presented to the Corporation for approval.

MARKETING VALUE FOR MONEY METRICS 2016/17

A/17/046 The Vice Principal Finance and Resources referred Governors to paper LMC/A/11/17 and advised that this report was a result of an internal audit on marketing and value for money a couple of years ago. The former Director of Business Development devised the metrics, which were initially presented to the Committee last year. The Vice Principal Finance and Resources advised that the key factor was how many learners were recruited by the College and it is proposed that, from 2018/19, marketing activity, spend and outcomes will be included in the annual Marketing Analysis of Enrolment. This will enable a more holistic report to be presented to Governors.

In response to questions:

A/17/047 Marketing data is complex and what Governors really want to know is whether the College achieves value for money from its marketing spend. Although the matrix was a basis for development, it was noted that the cost per recruitment is not necessarily the right measure; what Governors are concerned with is what marketing is most effective in helping to recruit learners. The Student and Learning Services Manager has recently taken on the management of marketing and will be implementing more 'stop and ask' surveys and student focus groups to find out more about why learners chose to study at LMC and to ascertain some more useful information that can be used in future marketing.

A/17/048 The Committee received and discussed the Marketing Value for Money Metrics 2016/17; paper LMC/A/11/17.

ANY OTHER BUSINESS

A/17/049 There were no other items of business.

DATES OF NEXT MEETINGS

A/17/050 Wednesday 7 February 2018 at 6.30pm
(The Chair of the Committee advised that he was unable to attend this date and revised date of 21 February 2018 was provisionally agreed).
Wednesday 23 May 2018 at 6.30pm

The Corporation agrees that these non-confidential minutes are an accurate record of the meeting.

SIGNED:

NAME: (Chair)

DATE: