## MEETING OF AUDIT COMMITTEE

**TIME/DATE 5.00pm, Wednesday 12th June 2019**

**VENUE Room PS108, Parson’s Walk, Wigan Campus**

## ATTENDANCE:

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| Committee Members | Ann Harrison (Chair) |
|  | *Gill Edwards* |
|  | Susan Loudon |
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| External Co-opted Member | Pauline Hunter |
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| Clerk | Robert Smith |
| Finance Director | Steve Scott |
| Vice Principal, Corporate Services | Louise Brown |
| Assistant Principal IT, MIS and Subcontracting | Dave Harrison |
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| Internal Auditor (ICCA) | Jonathan Creed |
| External Auditor (Wylie & Bisset) | Scott Gillon |

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| ***Italics denotes absence* MINUTES** |

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| **Item** | **The meeting opened at 5.00pm and was quorate with at least 2 members present.** | |
| **1** | **A/12/06/01** | **CONSULTATION WITH AUDITORS**  Members and the Internal Auditor met for initial discussions in the absence of the Executive Team and the Clerk. |
| **2** | **A/12/06/02** | APOLOGIES An apology for absence was received from Gill Edwards. |
| **3** | **A/12/06/03** | DECLARATIONS OF INTEREST There were no declarations of interest from committee members, although it was noted that the HR Performance Management audit due to be reported at the meeting had been carried out by a family member of the Internal Auditor. |
| **4** | **A/12/06/04** | MINUTES OF THE MEETING HELD ON 13TH MARCH 2019 The minutes were approved as an accurate record of the meeting and for signature by the Chair. |
| **5** | **A/12/06/05** | **MATTERS ARISING**  The Clerk advised that all matters on the committee’s Action Sheet were now complete. |
| **6** | **A/12/06/06**  6.1  6.2  6.3  6.4  6.5  6.6  6.7  6.8 | **INTERNAL AUDIT PROGRESS REPORT**  **The Internal Auditor provided a summary of internal audits carried out to date for the 2018/19 cycle of activity. He advised that audits had been completed for the following areas:**   * **Maths & English Strategy** * **Safeguarding** * **External Assurance of Sub-contracting Controls** * **HR & Payroll** * **HR Performance Management** * **Partnership / Sub-contracting Controls** * **Mock Funding Audit (Parts 1 and 2)** * **GDPR Compliance** * **Follow-Up Audit**   Members noted that the first three of these audits had been reported at the committee’s previous meeting. The Clerk advised that the HR & Payroll audit had only been carried out earlier in the current week and circulated copies of the report. He also advised that Part 2 of the Mock Funding Audit had been circulated in draft form as the management responses had not been finalised. Members acknowledged that this was because the audit had only taken place shortly before the date of this meeting. The Clerk explained that the finalised management responses would be included in the next Audit Implementation Tracker report and agreed to circulate the final audit report to members as soon as it was available.  **Action: Clerk**  The auditor outlined the report findings as follows:  HR & Payroll  The Internal Auditor advised that this audit had found the design of controls and compliance with their operation both to be ‘good’ and the overall assurance rating to be ‘substantial’. It was noted that there were no recommended improvement actions. The Auditor also provided further background information relating to the college’s payroll operations. He explained that the college had found it difficult to recruit and retain a Payroll Manager with the required skills and experience to operate and oversee the increasingly complex payroll systems. As a result, it was noted that the college was now seeking to secure an outsourced service through which the college would simply input data for payroll changes and the service provider would deal with payments to staff, contributions to HMRC and payments to pension providers.  The Vice Principal, Corporate Services added that, as payroll system requirements had become more sophisticated, potential Payroll Managers required greater expertise and that recruitment had become more challenging and more expensive. She explained that the college had concluded that recruiting an in-house Payroll Manager would now be significantly more costly that engaging an outsourced service. The Chair sought assurances that new arrangements would still provide suitable checks and controls. The Vice Principal confirmed that controls were expected to be equally or more robust than current controls with segregation of duties in terms of transaction approvals and a final check of planned payroll payments prior to completion.  HR Performance Management  The Internal Auditor again reported that design and compliance of controls were ‘good’ for this audit and that the overall assurance level was ‘substantial’. He commented that the college had good quality appraisal and staff training systems and that its approach to the management of under-performance was effective. Members were pleased to learn that no improvement actions were required. The Vice Principal reported that the new iTrent system for appraisals, training and performance management had significantly improved compliance across the college and that staff found the new arrangements more focused and straightforward.  Partnership / Subcontracting Controls  The Internal Auditor advised that this audit was in addition to the compulsory annual External Assurance Audit reported at the previous meeting. He explained that the second audit was more qualitative in nature and looked more closely at how partnership relationships were managed, including reporting compliance and quality control. It was noted that the design and compliance of controls were both ‘good’ and that the overall assurance rating was ‘substantial’. The Internal Auditor reported that the audit had resulted in one ‘low priority’ recommendation relating to the college’s ILR data and supporting evidence. He explained that one minor error had been identified where the start date on the ILR did not match that on the learner’s enrolment form. Members noted that this did not have a funding implication as the ILR date was correct and that the enrolment form had now been corrected. They also noted that the agreed action to improve controls in this area was to increase spot checks to ensure that ILR data matches source documents.  Mock Funding Audit – Part 1 (16-19 Study Programmes)  The Internal Auditor advised that this audit adopted the same methodology as a funding audit carried out by the Education & Skills Funding Agency (ESFA) and that the college and the committee had elected to utilise these audits in every annual audit cycle to improve preparedness for an actual ESFA audit should this arise. Members asked how often the ESFA carried out these audits at colleges and the Auditor responded that this varied from every year to every six or seven years. It was noted that this was because funding audits were risk-based and were more frequent for colleges where indicators of risk were higher. The Assistant Principal confirmed that the last ESFA funding audit was carried out at the college around three years ago.  Members discussed the audit findings and were again pleased to learn that design and compliance of controls were ‘good’ and that the overall assurance level was ‘substantial’. It was noted that there was one ‘low priority’ improvement action identified. This related to two learners where the ILR start dates and first attendance did not match. The Assistant Principal explained that these were errors relating to students who enrolled for courses but did not attend at the outset. However, he advised that the errors did not affect funding as both had met the qualifying period between start date and evidence of first learning. It was noted that the agreed action to address these findings was to review start dates against register start dates where learners were absent at the beginning of a course.  Mock Funding Audit – Part 2 (AEB & Apprenticeships)  Members were reminded that this audit report was still a draft and was awaiting management responses. However, the Internal Auditor reported that the design of controls within this audit was ‘good’ but that some errors in the application of these controls had been identified. It was noted that this had led to a finding that compliance was ‘adequate’ and the overall level of assurance was ‘reasonable’. It was noted that the draft report highlighted six areas for improvement, which related to ‘medium priority’ and ‘high priority’ recommendations.  The Chair asked the Auditor why the identified issues had only been highlighted in the current year’s mock funding audit. The Auditor explained that funding requirements changed quite frequently and that the ESFA also provided clarifications on an ongoing basis. Members acknowledged that this resulted in new areas of focus for funding audits as new requirements were introduced or existing ones clarified. Members also asked whether the conclusion that overall assurance was ‘reasonable’ was correct, given that some of the actions were identified as ‘high priority’. The Auditor responded that the assurance conclusion was appropriate as the high priority actions were not as a result of significant failures of compliance but due to the significant focus currently placed on those controls by the ESFA.  The Auditor commented that the overall audit findings did not suggest that there had been errors in the values of funding claims, but that improvements were needed in terms of the supporting evidence for those claims. It was noted that final actions would be included in the Audit Implementation Tracker and would be reviewed at the next meeting.  GDPR Compliance  The Internal Auditor reported that this audit had identified a number of potential improvements in the design of controls for GDPR compliance but had also found that the compliance with current controls was ‘good’. Members acknowledged that, as this was an area where new controls had only recently been introduced, it was to be expected that a first audit of this area would identify ways in which they could be further improved. It was noted that the overall assurance level was ‘reasonable’.  The Auditor outlined the recommendations and agreed actions. He advised that the first recommendation was ‘advisory’ only and related to the option of utilising a certification scheme to monitor compliance of data security in line with international best practice. It was noted that the college had agreed to investigate the suitability of an appropriate scheme and implement if it was likely to add significant value to the effectiveness of controls. The Auditor reported that the second recommendation was ‘medium priority’ and related to the need to carry out due diligence on data sharing partners. It was noted that due diligence was carried out on some data sharing partners, such as subcontractors, but that this should be extended to include others where data was shared under contractual arrangements. An example was provided of the Internal Audit service itself as data was shared as part of the auditing process. The Assistant Principal advised that current arrangements would be reviewed and due diligence extended where required.  The Auditor advised that the third recommendation was ‘low priority’ and related to the need to produce a Data Protection Impact Assessment template. He explained that the college had not experienced a breach of data security and therefore had not yet been required to carry out an impact assessment, but should still produce a template in order that it would be immediately available should a breach occur. The Assistant Principal advised that this recommendation would be implemented. The Auditor advised that the final recommendation was also ‘low priority’ and related to a lack of clarity within the college’s Data Protection Policy in terms of how it would respond to and report data breaches. The Assistant Principal confirmed that the policy would be updated to provide this clarity.  Follow-Up Audit  The Internal Auditor advised that the Follow-Up Audit had resulted in a finding of ‘substantial’ assurance with all 11 previous recommendations fully implemented. The Chair thanked members of the Executive Team for ensuring that all recommendations had been addressed. |
| **7** | **A/12/06/07** | **INTERNAL AUDIT REPORTS – MARCH 2019**  **The Clerk reminded members that the committee papers for March 2019 had not included the main reports for the Maths & English Strategy audit and the Safeguarding audit. He explained that this had meant that, whilst the auditor had provided a report on these audits at the previous meeting and that they had contained no recommendations for improvement actions, members had not had the opportunity to read the reports in advance. It was noted that these reports had been added to agenda for the current meeting in order to give members an opportunity to raise any further questions, having been able to read the reports in detail. There were no further questions.** |
| **8** | **A/12/06/08** | **INTERNAL AUDIT PLAN 2019/20**  **The Internal Auditor outlined the current longer-term audit strategy and the areas for audit identified for 2019/20. He also outlined the planning process, including the review of risks identified by the college, sector-wide risks, financial performance and outcomes for quality of educational provision. He highlighted specific links between the college’s risk register and audits selected within the draft plan. These included the review of key financial controls, auditing of the Pagefield Capital project, the review of data security and disaster recovery planning, auditing of the college’s approaches to student attendance and the review of the college’s Employer Engagement Strategy.**  **Members discussed the appropriateness of each audit and concluded that the overall plan provided a suitable and broad range of coverage. The Chair commented that the five-year overview, including the three years ahead and two previous years, provided an excellent overview of longer-term auditing strategy. It was noted that the proposed plan represented 34 days, which was in line with the duration of auditing in 2018/19.**  **RESOLVED:**  **That the Governing Board be recommended to approve the proposed Internal Audit Plan for 2019/20.** |
| **9** | **A/12/06/09** | **AUDIT IMPLEMENTATION TRACKER**  The Clerk outlined outstanding audit actions and it was noted that the remaining action reported at the previous meeting had now been fully implemented. It was also noted that all remaining actions related to audits carried out in the current academic term and none were due for completion by the date of this meeting. |
| **10** | **A/12/06/10** | **RISK REGISTER**  The Finance Director advised that the risk register was regularly reviewed in order to reflect the current strategic position and changes in the levels of risk intensity. He reported that seven risks had reduced in level compared to the start of the year and that seven risks had increased. However, it was noted that no risks had increased following the latest report to the March Audit Committee meeting and that two risks had decreased.  The Finance Director highlighted mitigating actions in place to address current risks and provided explanations for the two risks that had further decreased since last reported. It was noted that the first of these risks related to the potential of further funding cuts from the ESFA and that the risk had been decreased as funding levels for 2019/20 had now been confirmed. It was also noted that the second reduced risk related specifically to apprenticeship funding availability resulting in original targets not being met. Members recalled previous discussions at the Governing Board where these concerns were reported and a subsequent report confirming that the ESFA had now confirmed that this funding would be made available.  **The Internal Auditor left the meeting at 6.40pm**  **The External Auditor joined the meeting at 6.40pm** |
| **11** | **A/12/06/11** | **FINANCIAL STATEMENTS 2018/19 AUDIT PLANNING MEMORANDUM**  **The External Auditor outlined the principle audit objective of obtaining sufficient, relevant and reliable evidence to enable the Auditor to express opinions on the college’s financial statements for 2018/19. He explained that the committee and the Governing Board would be notified if proper accounting records had not been kept or if the necessary evidence required to support audit opinions was not disclosed by the college. The Auditor also outlined the nature and scope of audit activity. This included testing of the effectiveness of college financial controls. It was noted that Auditor proposed to adopt a substantive approach to testing of transactions, rather than testing of the controls themselves. The Auditor explained that this was not a reflection of the controls in place or any doubt on whether they could be relied upon, but was simply a matter of efficiency as it was more efficient to test resulting transactions rather than fully testing the controls themselves.**  **The Auditor also explained the ways in which risk would be reviewed in terms of informing the audit approach. He explained that this would generally focus on sector-wide risks as the Auditor did not have reason to believe the college had any specific individualised risk that would significantly impact on the audit. He acknowledged that all colleges remained always at risk of significant funding changes or reduced recruitment levels but that this did not pose heightened risks specifically for Wigan & Leigh College. Members discussed the risk matrix within the Auditor’s report and noted that total overall risk for each financial criterion had been identified as ‘low’. The Chair commented that the risk level was a subjective matter and asked why some areas of risk potential, such as fraud and corporate governance showed a ‘medium’ latent risk but an overall conclusion of ‘low’ risk. The Auditor agreed that these determinations were subjective but added that he had been unable to identify any specific risk concerns relating to governance or fraud that could justify any overall risk value other than ‘low’.**  **It was noted that risk positions could change as the year progresses and the Auditor confirmed that he would meet with the Finance Director nearer to the audit date to review whether current risk evaluations remained appropriate. He also confirmed that all areas would be subject to significant testing even where the risk evaluation was ‘low’.**  **Members asked whether the Planning Memorandum should make clear the independence of the External Auditor from the Internal Auditor. The Clerk explained that this was no longer a requirement but was still an option if the committee preferred that this be included. Members agreed that it was preferable that the independence and separation be recorded in the document and the Auditor agreed to amend the final version accordingly.**  **The Chair commented on a governor development session earlier in the day covering the new Insolvency Regime and asked the Auditor for his views on this matter. He responded that there was a crucial link between auditing conclusions of ‘going concern’ and solvency. He stressed the importance of an Auditor having confidence in a college’s ability to continue its operations for at least twelve months into the future before a determination of ‘going concern’ is made. He assured members that if the college was to be signed off as a ‘going concern’ it would only be because the Auditor is fully confident that this is the case.**  **The Chair congratulated the Auditor on the re-appointment of Wylie & Bisset following a recent tender exercise and asked what he had derived from the tender process. The Auditor responded that it had been clear that Wylie & Bisset would need to offer greater added value elements to the college and also improve the ways in which it supported the college by identifying potential improvements to its systems of control. In order to offer added value, the Auditor offered to deliver a development session for governors at 4pm prior to the committee’s November meeting and suggested that a detailed presentation on the role of the External Auditor and the audit process would be a useful topic. Members concurred and asked that this be arranged with the Clerk and made open to members of both the Audit Committee and the Resources Committee.**  **Action: Clerk**  **The Auditor also commented that he would ask his colleagues to adopt a different approach to identifying potential improvements in systems of control by reviewing this constantly throughout the audit, rather than simply looking back at the overall audit on its completion. The Clerk asked whether Wylie & Bisset produced briefings about key developments and learning points across the sector that could be shared with committee members. He suggested issues such as the insolvency regime and sector concerns regarding pension valuations as examples. The Auditor confirmed that his company did produce internal briefings on these sorts of subjects and that he would look at ways such briefing could be tailored for governors.**  **RESOLVED:**  **That the Governing Board be recommended to approve the proposed Financial Statements 2018/19 Planning Memorandum.**  **The External Auditor left the meeting at 7.15pm** |
| **12** | **A/12/06/12** | **REVIEW OF AUDITOR PERFORMANCE**  The Clerk drew members’ attention to the schedule of commentary on auditor performance for both the Internal Auditor and the External Auditor. Members discussed the proposed commentary and the auditors’ compliance with relevant KPIs and concurred that the KPIs had been met.  The Chair sought further clarification in relation to the reasons behind a significant delay in concluding the Corporate Governance audit report. The Clerk explained that this was the result of internal reasons and not reflective of the Internal Auditor’s performance. The Chair also commented that the Internal Auditor had shown a significant willingness to provide added value services in 2018/19, including the delivery of two development sessions for governors.  **RESOLVED:**  That the appointments of both sets of auditors be re-affirmed in line with current contractual arrangements |
| **13** | **A/12/06/13** | **ANY OTHER BUSINESS**  There was no further business. |
| **13** |  | **DATE AND TIME OF NEXT MEETING** – 5pm Wednesday 20th November 2019 (subject to Governing Board approval) |
|  |  | **The meeting closed at 7.25pm** |