



NORTH SHROPSHIRE COLLEGE

**MINUTES OF THE MEETING OF THE
AUDIT & RISK MANAGEMENT COMMITTEE
held on WEDNESDAY 28 JUNE 2017
in the Board Room
at the OSWESTRY CAMPUS**

Present:

| | | |
|----------------------|------------|-----------------|
| Mr P Polowyj | PP | Chair |
| Mrs V Cox | HVC | Co-opted |
| Mr J Nicholls | JN | |

Attendance: 43%

In attendance:

| | | |
|-----------------------|------------|--|
| Ms L Randall | LR | RSM UK |
| Mr A Reid | AR | Grant Thornton |
| Mr B Deed | BD | Interim Finance Director (part) |
| Mrs C Thompson | CDT | Clerk to the Corporation |

The meeting opened at 6.00 pm

- | Item | Action |
|---|---------------|
| 1. Apologies for absence Mr G Casson; Mr A Clarke; Mr R Hargreaves; Ms E McQueen. Mr P McCann, interim Principal, Ms K Smith of RSM and Mr Bill Devitt of Grant Thornton could not be in attendance. | |
| 2. Declarations of interest None. | |

3. Minutes

The minutes of the Meeting held on 6 March 2017 were approved and signed by the Chair.

4. Matters arising

Farm

Governors asked if the farm staffing had been stabilised. They were concerned that the Farm Manager had been under significant pressure. The interim Finance Director confirmed that the situation had improved and the farm was fully staffed. Milk yield had improved. Governors asked if there would be a report for the Board. The interim Finance Director said that the external consultant had carried out his review, as the Board had been previously advised was imminent. His report had only just been delivered but a paper would be brought to Board in due course. **Governors agreed.**

**PM –
2.10.17**

5. Risk Register and Monitoring Report

The interim Finance Director said that there had been a number of changes which were laid out in his report. Some risks had been removed and wording had been changed as a result of discussion at Board.

Governors asked about the position with the Transaction Unit (TU) and the bid for Restructuring Funds (RF) to support the merger between NSC and Reaseheath College (RHC). The interim Finance Director said a number of queries had been raised by the TU which Graeme Lavery (RHC Finance Director) had been answering with his assistance. This had involved updating a major spreadsheet with the latest figures. The NSC/RHC bid for RF had been deferred from the TU Finance Committee's agenda several times and was now scheduled to be considered at the end of July. The workload for the TU and the Finance Committee was high.

Governors asked if there was still sufficient time to achieve merger by 1 January. The Governance Advisor confirmed there was though it was becoming time-critical: four months was needed to carry out all the necessary work. Governors asked if the timeline meant that the TU and Finance Committee would prioritise the NSC/RHC bid. The interim Finance Director thought not: there were a number of bids in and the TU was requesting further detail from colleges to support their bids, to fulfil their duty as stewards of public funds. There had also been a delay owing to purdah in the run up to the General Election. The amalgamation of the Skills Funding Agency and the Education Funding Agency may also have caused a delay. Governors asked about a 'Plan

B', in the event of the proposed merger being called off. The Governance Advisor confirmed that this had been considered, and a shortlist of options had been drawn up, as well as a high-level plan for the actions that would need to be taken should the failure occur. The Education & Skills Funding Agency (ESFA) was very supportive of the College as it had done everything possible to achieve merger. The bank had requested a meeting for the following week with the interim Principal and the interim Finance Director. They had asked what was the College's Plan B. **Governors agreed this was a good approach.**

Governors asked about the interim Principal's departure at the end of August, two months earlier than originally planned. The Governance Advisor confirmed that she and the Chair of Governors had had an immediate, initial meeting after being advised of the resignation, and another meeting was planned the following week to determine actions. Governors asked that the departure of any other key Senior Leadership Team members also be considered. The Governance Advisor confirmed that this was on the agenda. **Governors agreed to this approach.**

Mr Reid said that as there was uncertainty, the Risk Register should be updated as more Exceptional Financial Support would be needed.

6. Audit tracking report

All actions on the report were complete. The actions from the reports presented at the meeting would be added and tracked at the next full Committee meeting.

**CDT-
28.11.17**

Members noted the updated report.

7. Internal audit

7.1 Internal audit progress report

Ms Randall reminded governors of the background with the internal audit plan. As reported at the previous meeting, the needs of the College had changed, and therefore the internal audit plan had been changed. It had been agreed to decide on another area for audit, to enable RSM to give an annual opinion to Board. Following the previous meeting, Ms Randall and a colleague had discussed options with the interim Finance Director. It had been decided to review processes. This was good 'housekeeping' would protect the College ensuring that all was in order prior to merger. It showed a good control culture.

The progress report gave an overview of all the audits undertaken and progress towards achieving the actions identified. A report would go to Board, noting a steady state in some control systems, and improvement

in other areas. The progress report would feed into the RSM opinion. It showed steps had been taken to enhance controls and compliance.

The annual report in August would give a positive opinion based on the internal audit work delivered in 2016/17, with caveats, which was normal. The progress report would also inform the Committee's own report to Board.

7.2 Internal audit reports

7.2.1 IT Security

IT was always a vulnerable aspect of any organisation, as witnessed by the recent cyber-attacks on organisations, reported in the media. There were four recommendations identified as a result of the audit: password settings needed to be placed at a more sophisticated level; anti-virus software should be methodically applied across all devices, and to be updated regularly; separate administrator accounts should be set up to ensure individual work could be tracked; and ICT user policies had lapsed in January and would be updated.

Governors asked if staff laptops and memory sticks were encrypted, to protect sensitive data. The interim Finance Director was Data Controller for the College. He would carry out an audit of data protection. The new General Data Protection Regulations coming into force in 2018 needed to be considered.

**BD -
summer**

Governors asked about implementation dates for the recommendations. These had been set for 31 July to allow time for the IT Manager to complete the work before the new term in September.

7.2.2 Follow up

The Financial Regulations had been updated and were going to following week's Board. They included recommendations from previous review.

7.2.3 Policy in Practice – Purchasing & Asset Disposal

Substantial assurance was given. Two low priority actions had been identified. The interim Finance Director said they had been addressed within the Financial Regulations and Financial Procedures. Governors agreed this was positive.

7.2.4 Framework for Work Placements/ Work Experience

A great deal of work had been done in this area, and substantial assurance was given as a result of the audit. Two low and one medium priority actions had been identified.

7.3 Sign off process for current year's accounts

Ms Randall explained the process. RSM would give an annual report on three areas: governance, risk management and internal control. They could link governance and policies. In terms of risk management opinion, audits had been undertaken and reported to the Committee. The College had been managing its risks. In terms of internal control opinion, the College had been implementing RSM's recommendations to enhance controls. If RSM had given limited assurance on a number of issues, Grant Thornton would wish to consider those before signing off the accounts. Ms Randall noted that RSM had not done any work on student numbers in the current year.

Mr Reid said that Grant Thornton would sign off the accounts as a true and fair record of the College financial position. They would work with the internal auditors where appropriate. They had to give a Regularity Opinion, a requirement for the education sector per the Audit Code of Practice, to confirm probity, propriety, and appropriate use of public funds. There had been a qualification on the following of procedures two years previously.

7.4 Internal audit plan 2017-18/ Appointment of Internal Auditors

The decision on internal audit for the coming year was dependent of the merger position. There were three scenarios: merger with RHC on 1 January 2018, merger with RHC but later than 1 January 2018, or merger with RHC not going ahead (and NSC seeking merger with another organisation, which would take some time to achieve). Options were considered and discussed. The interim Finance Director thought that there should be no internal audits for the five months from September, except possibly an audit of compliance, although he said that he would recommend retaining RSM as the College's internal auditors. They would need to be in attendance at the November Audit & Risk Management Committee regardless of the position. If there was any delay in merger date, then an internal audit plan would be needed, focussing perhaps on the issues not picked up in the current year, e.g. student numbers, Data Protection.

It was agreed that there should be discussions over summer between the interim Finance Director, Committee Chair and RSM, to look at options. The outcome of the TU's Finance Committee at the end of July would bring more certainty regarding the merger position and this would enable a decision on internal audit to be made. **Governors agreed an extra meeting of the Committee should be set, to agree the plan and appointment for the 2017/18.** Governors agreed it was important to maintain close control right up to the point of merger.

**CDT-
2.10.17**

8. External audit

8.1 External audit draft plan – 2016/17 financial year

Mr Reid spoke to his paper. To sign off the accounts Grant Thornton would have to give an audit opinion. Significant risks and Reasonably possible risks were identified in the plan. There were four significant risks. The first was about the numbers and was an inherent risk in any organisation. The second was a risk about staff/management and ensuring journals had been properly authorised. Internal audit reports were useful evidence about the way controls operated. The third risk was pension disclosures, which was a significant risk because it depended on externals.

The fourth significant risk was around going concern. Grant Thornton had to take a view on what the likely position of the College would be in 12 months from the time of sign off, likely to be in November. At that point there should be certainty around the planned merger with RHC. If the College was going to merge in the 12 months from sign-off, it would not be a going concern, and the accounts would be signed off on a cessation basis. This might affect the valuation of assets: if they were going to be transferred to another College they would be valued on existing-use basis, rather than open market value. If no merger was imminent, then for it to be a going concern would rest on support from the ESFA.

Grant Thornton would draft a regularity assurance report for the College. A self-assessment questionnaire would be completed and would be signed off by governors. Two years previously the regularity opinion given by Grant Thornton had been qualified on account of inadequate forecasting. Processes had improved significantly in the previous two years. The £1.6m outturn, forecast in April was still largely unchanged, showing that forecasting was good, although financial challenges still existed.

8.2 Appointment of the external auditors

The interim Finance Director said the fees proposal of £18,497 would go to the Board the following week, subject to approval of the Committee. **The Committee agreed.**

**BD –
3.7.17**

Governors asked about the fees for the five months to December. This would be brought back to another meeting. **Governors agreed.**

**BD –
2.10.17**

The Interim Finance Director left the meeting.

9. Members' opportunity to question the auditors

Governors asked the auditors if the Committee was carrying out its role effectively. Ms Randall confirmed it was discharging its duties under the terms of reference, holding management to account, ensuring the recommendations from the internal audit reports were being

implemented. Having the opportunity to discuss issues with the auditors without management present also safeguarded the Committee and the College. Mr Reid added that there was regular governance financial control and there was control over financial reporting, which had for a time broken down. Governors now had surety about the financial position.

10. Any Other Business

There were no items under Any Other Business.

11. Date of next meeting

The next special meeting would be held on Monday 2 October 2017 at 4.30pm at the Oswestry Campus

The meeting closed at 7.30 pm.

Chair **Date**