AUDIT & RISK ASSURANCE COMMITTEE
CONFIRMED MINUTES

Date:	**21 September 2018**	Clerk to the Corporation Granville Road
Venue:	**The Boardroom, City Campus, the Sheffield College**	Sheffield, S2 2RL Tel: 0114 260 2620 Email alison.shillito@sheffcol.ac.uk

Present:	Ian Falconer, Chair Gwyn Arnold Jane Jones Michelle MacDonald Staff Governor.
In attendance	Madeline Hawley, (2017/18) Internal Audit Manager, Grant Thornton (left the meeting following agenda item 11 – minute 16 refers) Claire Partridge, KPMG (left the meeting following agenda item 13, minute 11 refers) Richard Lee, KPMG Kate Platts, Executive Director of Finance and Resources (EDF&R), Alison Shillito, Clerk to the Corporation Lisa Smith (2018/19) Internal Audit Manager, RSM

Action by by whom when

1. Apologies for absence

Richard Calvert and Chris Linacre (members) and Rob Barnett, RSM.
The meeting was Quorate

2. Chair's remarks

The Chair welcomed new members and the new Internal Audit Manager. The Chair noted the change to the Post-16 Audit Code of Practice that staff *should* not be members of the audit committee. At the Sheffield College, the Audit and Risk Assurance Committee had always been well served by the attendance of a staff governor. The Governing Body, in its board effectiveness review, had agreed that the Corporation wished to retain a staff governor's insight on the Committee. It was acknowledged that the staff governor would not participate in a vote nor be counted for quorum purposes but would contribute to the discussion and achieving a consensus.

The Chair re-ordered the agenda to allow the External Audit Director to leave after KMPG's items.

Members were asked to bear in mind the Chair of Governors' directions to committees to improve board effectiveness by ensuring that papers and discussions are focused on the committee's remit.

3. Declarations of Interest

Michelle MacDonald declared a standing interest as a staff governor. The Committee <u>agreed</u> there were no agenda items that might require withdrawal of a staff governor and therefore no action was required on

this declaration.

Claire Partridge declared a standing interest that she is a member of the Governing Body of Barnsley College. The Committee <u>agreed</u> that there was no action required in respect of this declaration.

The Committee <u>agreed</u> that it did not require a private meeting with auditors at this meeting.

The Committee <u>noted</u> that Ian Falconer's membership of the DN Group Governing Body ceased on 31 July 2018.

4. Minutes of the meeting on 11 June 2018

The Committee <u>approved</u> the minutes of the meeting held on 11 June 2018 as a true record, including the Confidential minutes.

5. Matters Arising and Action Record

5.1 Minute 18/2/5.3 refers: Business continuity and emergency planning

The Executive Director Finance and Resources (EDFR) requested a deferral for completion of Executive training until December 2018. This was to enable completion of the Business Continuity element of the plan, which would form the basis of the training. To mitigate the continuing risk, the College already had well-established plans for crisis communication, fire evacuation, IT recovery and adverse weather conditions policy.

The Committee acknowledged that it was helpful to differentiate between disaster planning and longer-term business continuity planning and that the training on business continuity was predicated on a clear plan. Members expressed concern that there were lots of new staff and students on campus in the Autumn term and they needed to know what to do in the event of all types of emergency such as a significant violent incident on campus. It was noted that many colleges were using the 'Run, hide, tell' police campaign materials.

The Committee agreed to defer the deadline for the overall action but asked that the Executive prioritise training and information for staff and students in emergency procedures for a major incident on campus and inform the Committee on how this is being progressed as soon as possible and before the next meeting in December.

EDFR   **Nov. 2018**

5.2 Minute 18/2/9.4 refers: Payroll, expenses and HR processes

The Committee noted that work on two outstanding actions that had been requested by the end of July were still in progress with electronic holiday booking/recording nearing completion and the review of access controls due to be completed by the end of October. Further discussion of this request was considered under agenda item 7.

5.3 Minute 18/2/13.3 refers: Loan Covenants

The discussion of this item is recorded in a separate confidential minute.

5.4 The Committee <u>noted</u> the updates and <u>agreed</u> that it was in a position to assure Governing Body that

i)   work is progressing to plan with banks to ensure that the changes to a covenant attaching to the College's loan facilities are resolved so there is no impact on the College as a 'Going Concern; and

ii)   a process exists to ensure all Committee actions are monitored

and completed. It was disappointing that progress on some items had been delayed.

6.   Committee Terms of Reference

6.1   The Committee received the report noting that the Governing Body's board effectiveness review had included reviewing the terms of reference of all its committees. Following approval by Governing Body, each committee had been asked to review its Terms of Reference at its first meeting and revert to Governing Body for any changes.

6.2   Members acknowledged that the list of responsibilities in section 9 of the terms of reference were drawn from the Post-16 Audit Code of Practice and accepted they remained appropriate. But it was suggested that the Committee would be more effective if its terms of reference were simplified to provide a clear structure to its purpose and work.

The Committee endorsed the Chair's proposal that the Committee should think of its role as:

- Determining the Corporation's assurance needs
- Receiving assurance
- Reporting assurance
- Managing operational matters.

It was agreed that before revising its terms of reference, the Committee would benefit from some (refresher) training for existing and new members on the role and remit of the audit committee. The Internal Audit Manager agreed to facilitate a session.

6.3   The Committee agreed to endorse the Terms of Reference approved by Governing Body on 16 July 2018 pending further training for members as follows.

i) Clerk to liaise with the Internal Audit Manager to set-up a workshop for members on the role and operation of an effective audit committee.	Clerk	Oct. 2018
ii) As part of the workshop, the Committee to consider further how it might simplify and structure its terms of reference and operation to map more closely to the College Assurance Plan and to better enable it to conclude on the range of opinions that the Code of Audit Practice requires it to reach annually about the effectiveness of the College's assurance arrangements.	All	Dec. 2018

7.   Risk Management Strategy 2018/19

7.1   The Executive Director Finance and Resources presented a confidential report including:

- Risk Management Policy, Guidelines and Procedure, which had been further updated to incorporate feedback from Governors at the June Strategy Day as well as the feedback from the Committee.

- The Strategic Risk Register, which had been updated since the last meeting to include residual risk ratings and sources of external assurance, where available.

7.2   The Committee noted that:

- relevant risks were now routinely highlighted on board and committee reports,

- individual risk owners had specific actions and delivery dates that the Committee would see and monitor

- consideration of the risk register was a routine item of business for the Executive Leadership Team and the Team as a whole were working on the RED rag rated risks and recognised the challenges.

- The number of risks had been reduced from over 60 to 53.

7.3 In receiving the assurance in the report, the Committee:

- welcomed the progress on the Strategic Risk Register.		
- endorsed the College's six highest strategic risks where improvement action was most needed.		
- recommended that there be further prioritising of those risks with a high score for 'risk reduction due to controls'. The six – eight with highest reliance on controls as well as the six highest (red rated) residual risks should form the basis of the Committee's assurance plan.	EDFR	Nov. 2018
- noted that two of the red-rated risks did not have sources of external assurance and therefore, in developing an assurance plan, the College and the Committee should consider the most appropriate sources of assurance for these risks, such as management control and reporting and monitoring through Finance, Employment and General Purposes Committee.	ELT	Nov. 2018
- requested that in future iterations of the register, there should be an indicator of how the risks were moving over time.	EDFR	Nov. 2018
- agreed that at its next meeting the Committee should review progress on the Committee's assurance plan based on top 10 - 12 risks selected by risk rating and those with high scores for risk reduction due to controls showing the internal as well as external sources of assurance.	EDFR	Dec. 2018
- recommended approval to Governing Body of the revised Risk Management Framework and Risk Register for consideration at its December 2018 meeting.	Clerk	Dec. 2018

8. Internal Audit Report on Risk Management

8.1 The Committee considered the Internal Audit Report on Risk Management in parallel with the termly report on Risk Management. The Internal Audit Manager from Grant Thornton introduced the report and commented that the fieldwork had been done in May 2018. Internal Audit were satisfied that senior managers had responded effectively to the report and that many of the recommendations had been addressed as evidenced by the changes reported to the Committee.

8.2 The Committee noted the reports, welcomed the assurance the reports provided that changes have strengthened the College's risk management arrangements and approved the management responses and deadlines.

9. External reviews: Subcontracting Controls Report 2017/18

9.1 The External Audit Director presented the report noting that it complied with ESFA assurance requirements by focusing on the College's arrangements for managing its subcontractor relationships. The review was not intended to provide any assurance as to the quality or content of subcontracted provision.

9.2 The External Audit Manager commented that it was notable that the volume of subcontractors had significantly increased since last year. The report confirmed that the College had completed action on the findings in the 2016/17 review and made two high and one medium recommendation arising from its 2017/18 review:

(i) Selection and procurement - ensuring that the due diligence log is completed and full documentation is available for all subcontractors (high – completion due December 2018)

(ii) Some contracts could not be located or had not been returned by sub-contractors. The management response was to ensure that 100% of subcontractors have a signed contract in place within 12 weeks of start of contract (high completion due by October 2018).

(iii) Monitoring – the College was not able to provide evidence for some visits (medium with completion due by November 2018).

9.3 The Committee noted that some of the growth and absence of documentation had been in connection with national apprenticeship contracts provided through the Collab Group where education provision local to an apprentice was subcontracted via Collab Group to a local college. It was noted that some of these subcontracts were for low values but all had to meet the same regulatory requirements for contracts, checks and visits irrespective of value. The Committee asked for further information on how the College was addressing securing value for money where compliance costs of some parts of a contract may exceed the income generated. It was stressed that having effective apprenticeship administration and monitoring became even more important with the implementation of apprenticeship standards as learner progress was not evidenced through a modular qualification framework and required close monitoring in partnership with the employer.

9.4 The EDFR agreed to speak to Jane Jones outside the meeting to understand the risks of monitoring apprenticeship standards at a distance and on behalf of the Committee seek a response from the Commercial Director about how these risks were being managed.	EDFR	Dec 2018
9.5 The Committee welcomed the positive assurance the report provided of the controls in place for subcontracting and that the recommendations highlighted in the report would be followed-up through the recommendations tracker. The Committee expressed disappointment that the College had not been able to fully evidence some basic requirements and requested that the recommendations be completed as soon as possible and an update, including the additional assurance requested in minute 9.3, beprovided to the next meeting.	CD	Nov 2018

10. Teachers' Pension Scheme annual certification review

10.1 The Committee received the report, which had been completed by KPMG to meet the requirements of the Teachers' Pension Scheme regulations. This required a reporting accountant's report to be provided with the College's end of year certificate. The report had found two

minor differences due to rounding and these had been rectified. No further action was required.

10.2 The Committee <u>welcomed the assurance provided by</u> the report.

11. Report from External Auditors on progress of audit of 2017/18 Financial Statements

11.1 The External Audit Director reported that early work had commenced and they had been liaising with banks about going concern issues as reported above. Some of the discussion is recorded in a confidential minute.

11.3 The Committee <u>noted</u> the report. Claire Partridge left the meeting at this point.

12. Management review of internal and external audit recommendations

12.1 The EDFR presented the report summarising action taken in response to internal and external audit recommendations. It was noted that:

- there were 21 outstanding internal audit recommendations (compared to 23 previously);

- 25 internal audit actions had been fully completed;

- 23 new actions added to the tracker since the last meeting;

- 7 internal audit actions were overdue, an extension was requested;

- 3 external review recommendations had been added from the Subcontractor Controls Report 2017/18.

12.2 The Committee welcomed the progress made but was concerned about continued slippage. The EDFR said that some deadlines had been planned on the basis of action being completed during the summer and this had not always been possible due to dependencies and most staff took some or much of their leave during the summer period.

12.3 The Committee <u>approved</u> the requested deadline changes in the light of the assurance provided by the findings and responses to the Internal Audit Review: Follow-up recorded in minute 13, below.

13. Follow up report

13.1 The Internal Audit Manager (GT) presented the report commenting that although the review had not found evidence for some of the actions recorded as complete they were satisfied that the actions taken by the EDFR to make recording and reporting more robust and strengthen documenting evidence of completion would address this in future.

13.2 The Committee <u>noted</u> the report and <u>approved</u> the proposed actions in response to the recommendations identified in the review. In approving the actions the Committee also assured Governing Body that it was satisfied that the College had a robust process to track control improvements required.

14. Internal Audit Review: Internal Communications

14.1 The Internal Audit Manager (GT) presented the confidential report highlighting two main areas of risk identified:

(i) the need for a formal strategy on what internal

communications the College is using for what purposes and ensuring they are used consistently, and

(ii) Exploring the reasons for and addressing the divergence between responses to the last staff engagement survey by business support staff and curriculum staff.

14.2 The EDFR said that the low and divergent scores for employee satisfaction reflected the state of morale in the College in May 2017. The new Chief Executive and Principal and new Executive Director of HR and Organisation Development have changed the approach to leadership and communications. There has been a pulse survey that will be reported to staff and the board shortly and there will be a new engagement survey shortly to test the impact on staff views.

14.3 The Committee noted the report, welcoming the assurance that it gave governors that the importance of sound communications had been recognised and improvement actions were in hand to address what is one of the College's highest risks. In approving the proposed actions, the Committee requested changes to sharpen the wording of the agreed management actions to make clear what 'will' happen.

14.4 Subject to these changes, the Committee approved the actions and recommended that progress on these actions and the internal communications plan should be kept under close monitoring by the Finance, Employment and General Purposes Committee.

15. Annual Report of the Internal Audit service 2017/18

15.1 The Internal Audit Manager (GT) presented the draft annual report on Internal Audit summarising the work completed by the service in 2017/18 against the Internal Audit Plan for 2017/18, which had been approved by the Committee in September 2017. The Committee noted that (GT) Internal Audit had spent 58 audit days (8 days less than planned) providing 7 reviews and reports. This had been in line with the number of reviews in the Audit Plan.

15.2 The Committee welcomed the independent assurance provided by the annual report, noting that this would contribute to the Committee's opinion in its Annual Report, and commended the report to Governing Body.

16. Performance of Internal Auditors

16.1 The Committee considered the performance of internal audit services in 2017/18. Members agreed that they were satisfied that the programme had been delivered within the agreed plan (as revised) and performance had been in line with the criteria specified in the contract, as confirmed in the Annual Report (minute 15 refers).

The Committee thanked Madeline Hawley for Grant Thornton's eight years' service to the College as Internal Auditor, at which point, Madeline Hawley left the meeting.

17. Internal Audit Strategy 2018/21

17.1 The Internal Audit Manager RSM presented the proposed Internal Audit Strategy for 2018/19. This had been developed based on RSM's assessment of sector and College risks and following consultation with

the College Executive Leadership Team and Chair of Audit and Risk Assurance Committee. The Plan included seven areas of the College's activities for internal audit during 2017/18 with an overall three-year plan that aims to provide assurance across the key risks.

17.2   The Committee considered the plan as follows.

i)   Members queried why Apprenticeships did not feature in the plan for 2018/19 given the discussions about the subcontracting review, the amount of change still ongoing for apprenticeships and the number of risks on the register. The EDFR responded that there had been a review of the implementation of the Apprenticeship Levy in 2017/18, with no high risks identified in that review. Therefore the next review of Apprenticeships had been provisionally scheduled for 2019/20.

ii)   It was noted that there would be a further IAR on Risk Management in 2018/19. Members suggested that the scope of this review should include a focus on where assurance is coming from for all the College's significant risks. The Internal Audit Manager agreed to factor this into the scope of the review.

iii) Given the significant risks and challenges around staff capacity, staff performance management and staff engagement, members asked how these might be addressed in the strategy. It was suggested that an Internal Audit review process may not be the most appropriate source of assurance for these risks and the Executive Team should consider an appropriate source of assurance in formulating its improvement plan.

iv)   Regarding IAs deferred from 2017/18, the Internal Audit Manager said that curriculum planning processes had been scheduled for 2019/20. This was planned to coincide with greater clarity on T Levels and Work Experience regulations. STS Ltd was subject to an internal review in 2018/19 and this would be reported to FE&GP Committee.

v)   The Chair queried if there would be any scope for an earlier date for the Data Governance review. The Internal Audit Manager said that the Internal Audit would need an evidence base to review the accuracy and timeliness of the data being provided to governors and managers. The reporting was new and the evidence base had yet to be generated. The Committee requested an earlier date be built into the schedule so it would receive the report no later than the meeting on 25 February 2019.

17.3   The Committee approved the Internal Audit Strategy and agreed that

-    it was satisfied that sufficient assurances were being received within the proposed Internal Audit annual plan (as set out at appendix A) to monitor the College's risk profile effectively.

-    the strategy for internal audit (as set out at appendix B) covered the College's key risks that were appropriate for IA review, as understood by the Committee.

-    the areas selected for coverage in 2018/19 are appropriate, subject

to ongoing monitoring by the Committee.

- the standards within the charter in appendix C of the report are appropriate to monitor the performance of internal audit.

18. Report on gifts/goods received by College staff

18.1 The Clerk presented the report explaining that it was a new report compiled from requests for approval submitted during the year and the annual returns of declarations by all governors, senior managers and staff with significant budget control.

18.2 The Committee noted the report, welcoming the internal assurance and noting that it would be reflected in Committee's Annual Report.

19. Data Security Breach Log 2017/18

19.1 The Committee received the report, noting that this had been provided in response to the Committee's request at its March 2018 meeting for a summary of the data breaches reported. The Committee welcomed that the College was logging incidents and the assurances given that action was being taken in response to the issues.

19.2 The Committee noted the internal assurance provided by the report and that external assurance had been commissioned as part of the 2018/19 Internal Audit Plan.

20. Whistleblowing report and revised policy

20.1 The Clerk presented the report explaining that Executive Leadership Team had requested a change to add to the Procedures (section 2.3 refers) that the recipient of a Public Interest Disclosure would notify the Chief Executive and Principal and the Chair of Audit and Risk Assurance Committee that a disclosure had been received and was being investigated.

20.2 The Committee considered the Policy as follows:

i)	Members asked if the Policy was sufficiently clear on which College procedure should be used, this might be unclear for bullying and harassment allegations. The Clerk said that the changes to the Whistleblowing Policy were intended to make it clear that the Policy covered wrong doing where reporting was in the public interest. The wording would be amended to direct staff to alternative policies.	Clerk	Sept 2018
ii)	The Internal Audit Manager (RSM) agreed to ask the company's fraud team to review the policy and suggest any strengthening for fraud response. The Clerk agreed to send an updated version for this purpose	Clerk	Sept 2018

20.3 The Committee welcomed the internal assurance provided by the report, which would be reflected in Committee's Annual Report, and subject to any IA feedback, recommended final approval of the revised policy to Governing Body.

21. Financial statements: draft regularity questionnaire 2017/18

21.1 The EDFR presented the report, explaining that the regularity questionnaire is part of the annual self-assessment that the ESFA requires all colleges to undertake to support the signing of the annual accounts and Financial Statements by the Chair of Governors and Accounting Officer. The EDFR, Clerk and Colleagues had put substantial effort into improving the responses to the questions and providing the draft earlier. In 2018/19, the EDFR would be compiling

evidence against the criteria during the year to ease completion of the self-assessment next year.

21.2 The External Audit Manager commented that the report would be considered by the Reporting Accountant and it would be tested by an audit programme as part of the regularity audit. The College would be required to update the questionnaire with any significant matters arising in the preparation of the final accounts and present the final version to the Committee's December meeting to recommend approval as part of scrutinising the Financial Statements and Annual Report.

21.3 Based on matters previously reported to the Audit and Risk Assurance Committee, the Committee agreed the information in the questionnaire. The questionnaire would be reviewed again at the joint meeting of the Committee with Finance, Employment and General Purposes Committee on 3 December with a view to assuring the Chief Executive and Principal (as the Accounting Officer) and the Chair of Governing Body that it was suitable for signing.

22. Draft Annual Report of the Audit and Risk Assurance Committee 2017/18

22.1 The Chair introduced the report explaining that the Committee is required to prepare an Annual Report for the Governing Body and the ESFA and include in the report a number of opinions on the College's assurance arrangements. The report is the Clerk's first draft and there is further work to do on formulating the opinions with supporting evidence.

22.3 The Committee considered its effectiveness in 2017/18 as follows.

   i) **Committee effectiveness** - 2017/18 was a transitional year for the Committee. The Governing Body had already identified that governor retirements would have a negative impact on the Committee and reflected this in the search process for new governors. In-year, attempts to expand the membership were delayed by further governor turnover. The Committee continued to press for an increase in the number of members and the size of the quorum. These recommendations were accepted by the board and incorporated in the improvements made as a result of the board effectiveness review. The Committee starts 2018/19 with a larger number of members and a broader skills base.

   ii) **Assurance Arrangements** – the Committee reviewed the arrangements for Internal Audit and External Audit and appointed/re-appointed providers following a full re-tender process. This was overdue in the case of Internal Audit but the delay did enable the Committee to coincide the appointment processes for Internal and External Audit, which was helpful. A new internal audit contractor has given the Committee fresh insight into the assurance needs of the College.

   iii) **Risk Management** – there has been a lot of progress on bringing the Risk Register up to date, making it strategic, dynamic and aligned to the College's new strategy. The Committee has been instrumental in scrutinising versions, giving feedback to the EDFR, encouraging the positive direction of travel and challenging the timeliness of follow-up to ensure actions are completed. Timely follow-up of risk actions remains an issue. The Committee recognises that the College has

significant challenges, needs substantial improvement and there is finite staff capacity to maintain operations at the same time as improving systems. Although the Committee did not wish to qualify its opinion on the effectiveness of assurance arrangements, members were concerned that staff capacity has been hampering progress on risk actions and timely management action in response to internal and external audit recommendations. This has had an impact on progress towards an effective assurance framework.

iv) **Governance** – the draft report noted that it had been a challenging year for the College's governance with a lot of changes to key role holders in leadership (governor and executive roles). The Committees' annual reports were awaited but it was noted that the board effectiveness review had resulted in

   a. a revised formal governor self-assessment process
   b. a new process for 360 degree review of the Chair's performance
   c. the establishment of a committee with a remit to improve and strengthen governance.

v) **Internal Controls** - in general the Committee is comfortable that the College's overall control framework will ensure effective and efficient operation. This is supported by the internal and external reports the Committee has received over the year even though there are Amber rated reports recommending improvements.

vi) **Data quality** - there are some reservations about the evidence base available to the Committee in 2017/18 to underpin an opinion on data quality. This is being addressed in the 2018/19 Internal Audit Plan. The Committee noted that an opinion on data quality was not mandatory for FE, although it is for HE. As a provider of HE it would be good practice for the Committee to provide an opinion on Data Quality. In addition, the FE Code of Good Governance recommends that the audit committee annual report *'should'* include a statement on data quality'. Members would need to consider their opinion carefully in reviewing the next draft of the report.

22.4 On the basis of the evidence in the report and the discussion, the Committee agreed that it would be comfortable giving the six opinions outlined in the report. The Chair and Clerk <u>agreed</u> to re-work the report to reflect the discussion and the assurance provided in other items at the meeting. The revised report would be circulated it to members for further review prior to submitting a final version to the next meeting.

Chair/ Clerk   October 2018

23. Review of meeting / closing remarks

The Committee commented that the meeting had over-run by 20 minutes but this seemed reasonable in view of the substantial agenda of business that had been completed including:

• receiving assurance that the management action tracker and risk actions were being pursued.

• agreeing a workshop for members to promote understanding of the Committee's role and challenges and help the Committee

develop an effective Assurance Plan for its work going forward.

- The recommendations made over several meetings for the improvement of the Strategic Risk Register seemed to be coming to fruition. The Committee could now see the essential elements of an assurance plan.

- Consideration of the Subcontracting Review, which had raised issues about the effectiveness of the College's process for tracking and managing its contracts. This had been a recurring issue and was a risk that the Committee wished to keep under review.

- The update on External Audit, which had indicated that progress on the financial statements audit was more promising than last year.

- Approval of a new Internal Audit Plan and three-year strategy, linked explicitly to sector and College risks, which should generate further assurance for next year. The Committee had also seen some new internal assurance reports that would support its annual report.

24. Date of next meeting

Monday 3 December 2018 at 8.30 am (Joint meeting with FE&GP Committee)