



**Audit and Risk Assurance Committee
Minutes**

Date: 11 June 2018
 Venue: The Boardroom, City Campus, the Sheffield College
 Present: Ian Falconer, Chair
 Gwyn Arnold
 Kathryn Atkin
 Ian Brown
 In attendance Madeline Hawley, Internal Auditor, Grant Thornton
 Philip Keown, Internal Auditor, Grant Thornton
 Richard Lee, Financial Statements Auditor, KPMG
 Lorraine Mackinder, Deputy Clerk and minute secretary
 Kate Platts, Executive Director of Finance and Resources (EDF&R),
 Alison Shillito, Clerk to the Corporation,

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Action
 by whom by when

18/2/1 **Apologies for absence**

No apologies were received. The meeting was quorate.

18/2/2 **Declaration of Interest (Instrument of Government 11)**

Kathryn Atkins declared her interest as a staff governor and a particular interest in the Apprenticeship Levy IAR as a member of staff in the Business Development team. The Committee noted a change to the Post-16 Audit Code of Practice that staff governors should not be members of the Audit Committee and it was acknowledged that Kathryn would not participate in a vote on any items and would withdraw from any items if required to do so by the Committee. The Committee agreed that there was no action required in respect of this declaration.

18/2/3 **Minutes of the meeting held on 19 March 2018**

The minutes were approved as an accurate record.

18/2/4 **Confidential Items**

The Committee noted that there had been no requests from members or auditors for a private meeting. Agenda item 7, recommendation for the appointment of internal and external auditors, was marked as confidential with attendance reserved to the Committee. Auditors would withdraw from the meeting prior to this item and would not be required further at this meeting.

18/2/5 **Matters arising and updated action plan**

Matters arising and actions not included elsewhere on the agenda were considered as follows.

- 5.1 **Action 17/16 – Code of Good Governance Self-assessment** – the Committee noted that the Governance Task and Finish Group was developing a self-assessment process for annual and period review of board effectiveness, in line with the sector Governance code.

5.2 **Action 18/1 (minute 18/1/6.1 refers) – Methods of calculating loan covenant compliance**

The Executive Director of Finance and Resources (EDF&R) made a verbal report to the Committee on her discussions with the Financial Statements' Auditor about the calculation of covenant compliance. The difference had arisen because the AIB loans have seven covenant requirements whereas Barclays only have two. The AIB covenants were intended to align to those of the Barclays loans but there were slight differences in the wording of the ratio of borrowing. The difference did not have any impact on the year-end position, the Audit opinion in the accounts or the banks' view of the breach. The EDF&R would be discussing the covenants with the bankers once the budget and three year plan had been finalised in early July.

The Committee noted the discussion. Members were assured that the College was alert to the issue and that appropriate action was being taken by the College to address covenant compliance. The Committee agreed that no additional action was required at this time.

5.3 **Action 18/4 (minute 18/1/8.7 refers) Business continuity and emergency planning**

The EDF&R made a verbal report to the meeting, explaining that a core group had been formed to manage disaster response and the Estates and Communication plans had been finalised. Completion of the IT plan and supporting documents had been delayed following the sudden death of the IT Manager. Implementation of training for Senior Leadership Team (SLT) staff had been paused as the roles and responsibilities were currently subject to change. The EDF&R requested that the action be rescheduled so that the new Executive Director of HR and Organisation Development (ED HR&OD) would be able to plan how to deliver this training to the new SLT role holders and for the induction of new staff in September. In addition, the EDF&R reported that she had met with the College's insurers who had offered to assist with business continuity training by providing a desk based scenario training and she would be exploring this further.

A member challenged whether the proposed delay in rolling out training and information for staff would leave the College at risk over the summer. The EDF&R responded that the Executive Leadership Team had gained first-hand experience of using the business continuity plan during the 'snow closure'. This incident and the Internal Audit had helped the College learn lessons which had been built into the plan.

The Committee approved the request to reschedule completion of the action date to September 2018. The Committee urged the College to pay particular attention to internal communications and training for executive/leadership team as soon as possible even if completion of all the actions had to be delayed.

EDF&R Sept
2018

18/2/6 **Risk Management Framework**

6.1 The EDF&R presented the report, the revised draft Policy and Risk Register.

6.2 **Risk Management Policy**

The Committee noted that the Policy had been updated to include policy, guidelines and procedures in one document. Members were satisfied that the Policy and guidelines seemed clear but the procedures needed further work. The Committee suggested that in finalising the Policy, the risks should be aligned to the College Strategic Priorities and the section on assurance should refer to the wider sources of assurance not just reports from auditors.

The Committee welcomed the progress that had been made and **recommended approval** of the updated Policy to Governing Body. The

Committee endorsed that the risk appetite should remain as 'low' currently for all risks (page 11 refers) although it may be appropriate to review this for certain elements of risk in future.

6.3 Termly review of Risk Register 2017/18 (Confidential paper)

The Committee received the risk register noting that it was work in progress but significantly improved on the previous iteration. It was noted that the new register had been generated by senior staff in a workshop; it was comprehensive containing a mix of operational and strategic risks, and it would benefit from further refinement. Some of the risk statements and mitigation plans required completion. The EDF&R said she and the Chief Executive & Principal were working with each member of the Executive to hone the number of risks from 63 to the top 3 risks in each area.

EDF&R Aug
CE&P 2018

The Committee considered the risk register as follows:

- i) To hone and prioritise the register, a member suggested restructuring the register into two sections; the first section containing items that we need to worry about, and the second section, items with residual score 0-8, presented for information.
- ii) The Committee supported the EDF&R in designating executive owners of the strategic risks, with ownership of operational risks cascading to relevant managers in the College. It was important for the risk owners at all levels to complete their own risk statement and mitigating actions as part of fostering a wider understanding of risk.
- iii) It was suggested that, once completed, the register could be shown in different ways to be more accessible to different audiences. The EDF&R said she had examples of different models such as in a pie chart or dashboard format and she would be testing these.
- iv) A key focus for the Committee is to assist the EDF&R to embed the maintenance of the risk register as a live document by keeping attention on the continuing development of the College's understanding of risk.

6.4 The Committee noted the report and corporate risk register (Appendix 2) and wished to highlight to Governing Body:

- i) that members are pleased with the progress so far;
- ii) the Committee is assured that the risks in the register appropriately reflect the College's key strategic priorities;
- iii) the risk register should be presented to full Governing Body periodically possibly in the context of strategy development and review.

Clerk Jan
2019

18/2/7 Management Review of Internal Audit Recommendations

7.1 The EDF&R presented the confidential report. Since the last meeting, she had systematised the process of regularly contacting action owners with prompts for action and requests for updates. There was further work to do on making sure that action owners knew how to access and update the report. There were also issues in recent reports about agreeing more realistic and specific actions so they could provide evidence of completion within the timeframe. It was noted that the College had not made as much progress as planned on completing actions in the latest tranche of Internal Audit reports and the EDF&R requested to extend the deadline dates for a number of actions to give her time to get the new follow-up system embedded and new staff responsibilities for outstanding actions clarified.

7.2 The Committee considered the report as follows

- i) Governors welcomed the new format for the report and the progress

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being made on systematically tracking completion of action and showing this clearly.

- ii) The Internal Audit Lead commented that the document would be very useful to Internal Audit in preparing the annual 'follow-up' report.
- iii) Members expressed concern about deadlines slipping and asked in particular if the delay in completing actions on the English & maths IAR and External Audit recommendations would have any negative impact on compliance with external requirements. The EDF&R said that changes recommended in the English & maths IAR had already been made to ensure compliance with funding body requirements and the delay was in revising and circulating a new form in the policy.
- iv) The Financial Statements' Auditor said that the College had made progress on the outstanding action on External Audit. In addition, KPMG had changed their processes to assist clients to upload relevant information earlier and reduce queries this year.

7.3 The Committee expressed concern about deadlines slipping but acknowledged that the College was involved in a significant change process and the amount of change there has already been to personnel and roles would not have been envisaged when the actions were originally agreed. The Committee approved the extensions in this context and said that in future extensions would be exceptional. In addition the Committee urged the College to complete outstanding actions by 31 July so the Committee has a clear basis on which to come to an opinion in this year's annual report. In future the Committee may exercise its right to request that action owners with outstanding actions attend to explain the delay.

18/2/8 Internal Audit progress report

- 8.1 The Internal Audit Manager presented the report proposing some changes to the final tranche of internal audit reviews to include a review on how the College might use the functionality of its finance system (Agresso) to better effect.
- 8.2 The Committee approved the changes to plan and were assured that IA was on target to complete the plan and present the final tranche of IA Review reports to the Committee's next meeting in September 2018.

IAR Sept
Manager 2018

18/2/9 Payroll, expenses and HR processes

- 9.1 The Committee received the report which looked at the whole payroll process and the card system for holiday requests. The report was rated as amber overall, due to one red/high rated recommendation. The current approval of holiday cards is a manual process and changes are not consistently formally tracked. The report recommends that the College adopts an electronic process for requesting and approval annual leave. There were also two medium risks noted in the report
- 9.2 The EDF&R said that progress had been made on some of the actions but the deadlines agreed by action owners had been unrealistic and some were now outstanding. The Committee was advised that the dates were set on the advice of auditors but some action owners seemed to be agreeing these in isolation with a bullish attitude to dates but without considering the dependencies on other parts of the College – for example choosing or developing and then implementing an electronic holiday approval system within one month was not achievable. The dates set for some other items may well slip because of personnel changes.
- 9.3 Internal Auditors advised that the holiday procedure was a significant part payroll and the internal controls in the current processes were not robust. Management had originally requested the inclusion of the holiday booking

process within the IAR to help the College modernise its systems and therefore pressing for prompt action on higher risk findings was appropriate.

- 9.4 The Committee noted the report and expressed concern about receiving an Amber report in an aspect of business that should be relatively straightforward. The Committee recognised the challenges presented by manual processes and that the May deadlines for taking action had already slipped. The Committee was also concerned about August deadlines not being met due to staff leave. The Committee stressed the importance of establishing more robust controls by the end of the financial year so as to start the new financial year on a firmer footing.

EDHR&
OD Sept
2018

18/2/10 **Impact of implementation of the Apprenticeship Levy**

- 10.1 The Committee received the report, noting the opinion of Internal Audit that the College had dealt very well with the implementation of the Levy. The report included two medium risk recommendations. In response to these the policy had been updated to reflect further changes to Levy processes and the College was implementing new forecasting model.
- 10.2 The Committee welcomed the assurance that this new area is being well managed. There were some indications that work on documenting the policy framework and ensuring good administration was incomplete. The Committee recognised that the College leadership at the time of Levy implementation had been prioritising securing new business and there had been significant changes and delays in notifying funding processes nationally.
- 10.3 The Committee noted that a comment in the IAR that not all contracts had been signed prior to the start of work. This was poor practice with inherent risk. The Chair said that it would be helpful for the Committee to have explicit assurance that signed contracts were now in place with all contractors. It was recommended that, in the longer term, the College should prioritise developing a single, central contracts register. As well as providing assurance, a central register would support effective invoicing, debt recovery, cash flow forecasting, records management and governance.
- 10.4 It was agreed that the Committee should keep under review the underlying issues arising from manual and paper-based administrative systems. The upcoming strategy day would provide an opportunity to highlight the importance of effective administration on improving the overall quality and efficiency of the College. The EDF&R commented that business support teams would be completing a self-assessment for the first time this year and this was an opportunity to focus on improving systems and processes.

EDF&R July
2019

18/2/11 **Information Security and preparation for GDPR**

- 11.1 The Internal Audit Manager introduced the report which had been commissioned in the context of the changes to data protection laws introduced by the General Data Protection Regulation and the Data Protection Act 2018. The report included two high risk recommendations:
- appointing a Data Protection Officer and;
 - procedures and training for staff in data sharing with other colleagues, external stakeholders and partners etc.
- 11.2 The EDF&R advised that the deadline had been met on all the recommendations. As regards external data sharing, the Working Group had checked or amended all the contracts they could find to ensure they included appropriate data sharing clauses. This process had also highlighted the lack of a central contract register. Online and face to face staff training had been completed with additional targeted training for some staff groups. Rachel Jones, a consultant, was the College Data Protection Officer on an interim basis, pending recruitment to the permanent role, which had been advertised.

New privacy notices and, where necessary, consent statements had been put in place before 25 May to ensure the College complied with the new laws when gathering new personal data electronically.

- 11.3 The Committee received the report and asked that it be noted that Governors are very pleased with the progress made and in particular wished to thank Rachel Jones and Paul Warren for their effort in making rapid progress to complete the actions against the high and medium risks identified. Clerk June 2018

18/2/12 Internal Communication and Staff Engagement

The Clerk advised that this draft report was circulated in error. The management responses were still to be considered by the Executive Director of HR and Organisation Development. The Committee agreed to defer the item to the next meeting. EDHR& OD Sept 2018

18/2/13 Financial Statements Audit Strategy for year ended 31 July 2018 and Fees

- 13.1 Richard Lee, Financial Statements Audit Manager presented the paper outlining the plan for conducting the external audit of financial statements for 2017/2018. It was noted that the content was largely driven by relevant Accounting Standards. The Plan proposed that reporting threshold and levels of materiality (page 6 referred) would be kept at the same level as last year, which is a relatively low threshold at £36k for adjustments and £730k for raising serious matters with Governors.

- 13.2 The Audit Strategy would focus assurance on the key risks that were facing the College as well as affecting the sector as a whole, which were:

- i) Pensions, there is more work to be done in this area and more regularity work in the FE sector around governance and
- ii) 'Going concern'; which is a major audit risk area for the sector given the full implementation of the new insolvency regime in 2019.

- 13.3 As discussed earlier, the College was forecasting to breach its loan covenants unless revised covenants were agreed by 31 July or if the College can secure a waiver from the lending bank. The Auditors recommended that this is a local risk area that should be considered at board level. Chair & Clerk GB July 2018

- 13.4 The Committee was satisfied that its potential questions around the focus on 'going concern' had been answered in the discussion of the report and agreed to recommend approval of the Audit Strategy and the fees to Governing Body, with a correction to one of the subsidiary company names on page 15. Clerk July 2018

18/12/14 Summary of internal and other assurance reports 2017/18

- 14.1 The Clerk presented the report summarising the assurance reports that the College had received or were due to be received and would contribute to the Committee's annual assurance report 2017/18. The Chair commented that there were probably reports received by other committees reporting on Health and Safety, Safeguarding and the College Scorecard / performance framework that should also be considered as part of the assurance framework. In addition there were activities such as discussions with banks that would not necessarily be covered by a formal report.

- 14.2 The Committee noted the report and confirmed that, in view of the other sources that were probably also available (see above), it was satisfied with the sources of assurance as the basis for its annual report and it did not wish to commission any additional reports. It was further noted that there would be changes to the Board and Committee structure and recommended that the remit of the committees be appropriately aligned with the risk register. Clerk July 2018

18/2/15 Chair's remarks

The Chair noted that this would be the last meeting that Philip Keown would attend at the College as he was retiring shortly. The Committee thanked Philip on behalf of the College for his work and wished him all the best for his retirement.

The Chair noted that this would be the last meeting of Kathryn Atkin who would be retiring as staff governor as she completes her full eight years of office in July 2018. The Committee thanked Kathryn for her service to the Committee.

18/2/16 Appointment of Internal and Financial Statements' Auditors

This item is reported in a separate confidential minute.

18/2/17 There being no other business, the Chair closed the meeting.

18/2/18 Date of next meeting

Friday 21 September 2018 at 8.00 am in the Board room City Campus