

THE TRAFFORD COLLEGE GROUP

**Minutes of the Audit Committee Meeting
held on Thursday 28 November 2019 at 6.00 pm
in the Boardroom at Trafford College, Altrincham**

Present:	Jed Hassid Sarah Drake Tony Healy Dawn Cole Ian Duncan	(Chairperson)
In Attendance:	Barry Watson Andrea Bennett Michael Frankish Jenny Elgar Natalie Jackson Kathryn McBurnie Anthony Gribbon-Lilse	(Corporation Secretary) (Director of Finance & Strategy) (Grant Thornton) (Grant Thornton) (BDO) (Associate Director of Finance) (Data Protection Officer)

Minute No

GAUD/34/19 Apologies for Absence

Prior to the commencement of the meeting the Corporation Secretary (CS) welcomed Kathryn McBurnie, Tony Healy, Sarah Drake and Anthony Gibbon-Lisle to the meeting and members and officers introduced themselves to them.

The Corporation Secretary (CS) reported that apologies for absence had been received from Brian Bradley.

GAUD/35/19 Declarations of Direct or Indirect Interest in any of the Meeting's Business Items

There were no declarations of either direct or indirect interest in any of the meetings business items.

GAUD/36/19 Minutes of the Meeting held on 18 June 2019

The minutes of the meeting were approved and accepted as a correct account of the meeting's proceedings.

GAUD/37/19 Matters Arising from the Minutes

The CS confirmed that all the actions arising from the minutes of the meeting had been completed or where included on the agenda for the meeting.

There were no issues raised by members arising from the minutes.

GAUD/38/19 Draft Report and Financial Statements including Letter of Representation for the period ending 31 July 2019

The Director of Finance & Strategy (DFS) presented a report which included The Trafford College Group Draft Report and Financial Statements (DR&FS) for the period ended 31 July 2019.

Minute No

It was noted that DR&FS were still in Draft form and that there were still a number of matters that needed to be updated as follows:

- Higher Education Learner Numbers. A member had noticed a discrepancy between the numbers in the DR&FS and those that had been reported to the Board of the Corporation and the DFS agreed to ensure that the correct numbers were in the presented Statements.

Action: Director of Finance & Strategy

- A note to be added concerning the capital commitment disclosure for the redevelopment of the Stockport Campus.
- Going Concern. The DFS advised that the Auditor had raised a matter in relation to the Going Concern statement in the Audit Memorandum and it was agreed that the matter should be considered after the Auditor had presented the Audit Memorandum Report. In respect of the Letter of Representation, it was also agreed that the consideration of the matter be deferred until the Going Concern issue had been concluded.

The DFS advised that the DR&FS had been prepared on the historical cost convention and modified by the revaluation of certain fixed assets in accordance with Financial Reporting Standard 102.

The DFS further advised that comparators with the previous year's DR&FS would not be meaningful as they had not been prepared on a like for like basis due to the merger in 2018/2019.

The DFS drew the Committee's attention to the following matters:

- Statement of Comprehensive Income particularly with regard to the impact of the actuarial loss relating to the pension on the outturn deficit position.
- Next Steps.

Members raised a number of issues arising from the report as follows:

- In respect of the key performance indicators, there were a number of large variations, which it would be helpful if a brief explanation of the variations were contained within the DR&FS. The DFS explained why a detailed account of the variations were not normally contained within the document and after discussion, it was agreed that a very brief explanation of the variances be provided.

Action: Director of Finance & Strategy

- Members identified a number of typographical, dates and numeric errors in the document which the DFS undertook to amend.
- Pension Scheme. The absent member (via email) sought clarification around the increase in net liabilities % as the 2.1% compared to last year at 2.8% did not equate to the deficit movement of £3.9m. The Auditor explained that the biggest single reason was the movement in the discount rate. It was further explained that the movement in the discount rate resulted in a lower factor being applied to the liabilities when discounted back to the present value. It was added that when discounting by a smaller percentage this results in an increase in the present value of the liabilities which subsequently increased the net liability of the Group at 31 July 2019. The CS undertook to advise the member concerning the Financial Statements and Regularity Auditors response (FS&R) response.

Action: Corporation Secretary

Minute No

- Clarification around the statement relating to demographic trends, which the DFS undertook to clarify and amend as appropriate.
- Clarification with regard to the continued percentage movement in the Bank Loan rate, which the DFS explained to the Committee.

There were no further issues raised by members arising from the report and it was agreed that the Audit Committee's recommendation to the Board of the Corporation concerning the DR&FS and the Letter of Representation be deferred pending the discussions in relation to the Going Concern issue.

Action: Audit Committee

GAUD/39/19**Self-Assessment & Regularity Audit Questionnaire 2018/2019**

The DFS presented The Trafford College Group Self-Assessment & Regularity Audit Questionnaire 2018/2019.

The CS reminded members that the Board of the Corporation had requested that the Committee take a view on the FE Commissioner's recommendation that the Audit Questionnaire be used as a working documentation. The Committee discussed the suggestion in detail and after discussion, it was agreed that any aspects of the Questionnaire from a risk perspective would be identified through the Board Assurance Framework and therefore, would meet the expectations behind the recommendation.

Members identified a number of issues arising from the Audit Questionnaire as follows:

- How the Fraud Bribery and Corruption Policy is implemented at the Group? The DFS provided a detailed account of the practical processes that are operated at the Group to support the Policy.
- How often the Register of Interests is reviewed. The CS advised that it is renewed on an annual basis and that members and relevant managers are required to inform the CS of any changes as and when they occur.
- It might be helpful if the statement relating to the safeguarding of assets from fire and theft was expanded to provide greater depth of coverage. The DFS agreed to make the response more substantive.

Action: Director of Finance and Strategy

- The expenses incurred by key management personnel. The DFS advised that the figure was correct and outlined the reasons for the level of expenditure to the Committee's satisfaction.
- A number of typographical and substance changes which the DFS agreed to amend.

Action: Director of Finance and Strategy

There were no issues raised by members arising from the updated questionnaire and it was resolved that it be recommended to the Board of the Corporation for approval subject to the agreed changes being incorporated.

Action: Board of the Corporation.

GAUD/40/19**Annual Report of the Audit Committee for the Period Ending 31 July 2019**

The CS presented a report, which included the Trafford College Group Annual Report of the Audit Committee for the period ending 31 July 2019 to the Board of the Corporation and the Principal for the Committee's consideration.

Minute No

A member commented that the recommendations, as detailed in the table, summarising the work of the internal audit was inconsistent and the CS undertook to amend the table to ensure consistency.

Action: Corporation Secretary

With regard to the statement relating to the Financial Statements Audit it was agreed that this would need to be updated in the light of the Committee's final deliberations and recommendations concerning the matter.

It was further agreed that the CS should amend the statement in the light of the ongoing discussions and that final sign off be secured through the Chairperson before submission to the Board of the Corporation

Action: Corporation Secretary/ Chairperson of the Audit Committee

There were no further issues raised by members arising from the report.

GAUD/41/19**Audit Committee Self-Assessment 2018/2019**

The CS presented a report, which summarised the responses from members regarding the Audit Committee Self-Assessment 2018/2019.

The CS advised that most of the assessments had been completed affirmatively with the exception of training for co-opted members. The CS also advised the Committee of the actions that are taken in order to ensure that co-opted members are kept up to date on national and local FE developments.

The Committee had a detailed debate relating to skills levels and training support for co-opted members and after discussion it was agreed that the CS should circulate to co-opted members, details of Governor Training events as they occur and that they be invited to them accordingly.

Action: Corporation Secretary

There were no further matter raised by members and it was resolved that the report be noted.

GAUD/42/19**Internal Audit Progress Report 2019/2020**

The Internal Auditor (IA) presented their progress report and it was noted that the agreed internal audit work for the Academic Year 2018/2019 had commenced with two audits having been completed to date.

The IA further advised that there had been no changes to the plan approved by the Audit Committee and that the remaining audits would be undertaken as scheduled with management.

A member asked why there had been such a delay in the management responses to the Learner Records, Additional/ Discretionary Learning Support, Income Reporting and Exams audit.

The DFS reminded members that this audit had been instigated due to the concerns that the Leadership Team had within this area and that subsequently the Director of MIS had left the Group. It was further advised that this was an exceptional set of circumstances and that management responses are normally always met within the agreed timeframes with the IA.

There were no further issues raised by members and it was resolved that the report be noted.

Minute No**GAUD/43/19****Internal Audit Reports 2019/2020**

The IA presented a series of reports arising from the reviews that had been undertaken in order to provide assurance that appropriate arrangements were in place and operating effectively in relation to the following activities:

- **Learner Records, Additional/ Discretionary Learning Support, Income Reporting and Exams**

The IA advised the Committee that the review had considered key area of activity including attendance monitoring, eligibility, existence and the recording of withdrawals. It was further advised that the auditor had focused their approach on the testing of the 2018/2019 student data. The report identified areas of good practice together with a number of opportunities for improvement.

It was noted that there were 8 recommendations for improvement 1 high, 4 medium and 3 low contained within the report.

The IA advised that the review had highlighted a significant number of areas of good practice with regards to identifying gaps and errors through DSAT reports and use of annotations, monitoring ALS/ DLS/ HNS learners for funding and support, accurate income reporting within the management accounts of each funding stream and entering students onto examinations in a timely fashion.

However, notwithstanding the areas of good practice, it was advised that the IA had identified that improvements should be made as follows :

- recording accurate withdrawal dates and start dates,
- maintaining learner files for ESFA audits,
- recording hours accurately within the ILR,
- drilling down into income departments or areas and segregating duties in relation to entering students onto exams and checking examination entries.

It was further advised that the findings were reflected in the assurance opinion of:

Moderate assurance for the design of controls and Moderate assurance in relation to their operational effectiveness.

Members raised a number of issues arising from the report as follows:

- A member commented that he had concerns regarding the high number of recommendations for this area of activity. The DFS advised some of the difficulties that had been experienced in this area were post-merger challenges and that it was expected that a high number of issues would have been identified by the Audit. The DFS advised that it was important to recognise the issues and have a plan to address them. The DFS advised that the Group had now established a MIS Task & Finish Group and that the recommendations from the audit would be managed on an ongoing basis. It was further advised that the area would be revisited and that the Tracker report would update Governors on progress and provide assurance around actions. It was further advised that a Learner Audit would be undertaken in year.

After due discussion and consideration, it was resolved that the report be recommended to the Board of the Corporation for approval.

Action: Board of the Corporation

Minute No

- **Management Accounts**

The IA advised the Committee that the purpose of the review was to provide assurance over the Group's management accounts and financial reporting framework.

The IA advised that the approach to the Audit included reviewing the mechanisms in place regarding the management accounts and that the cash flows were appropriately controlled including timing and format of reporting.

The report identified areas of good practice together with 1 (medium) opportunity for improvement.

It was further advised that the findings were reflected in the assurance opinion of:

Substantial assurance for the design of controls and Moderate assurance in relation to their operational effectiveness.

The Committee discussed a number of issues arising from the report including:

- The Civica 32000 system. A member asked about the effectiveness of the system and the DFS advised that it was on the Leadership Team's agenda with a view to upgrading it.
- An amendment to the meetings missed statement, which the IA undertook to change.

Action: Internal Auditor

After due discussion and consideration, it was resolved that the report be recommended to the Board of the corporation for approval.

Action: Board of the Corporation

GAUD/44/19**Education and Skills Funding Agency Income Audit (ESFA) 2018/2019**

The DFS presented a report, which advised the Committee that the Group had recently been subject to an ESFA assurance review of 2018/2019 funding. Members were provided members with a copy of the letter received from the ESFA relating to the review.

It was advised that the Group had not ,as yet, received formal feedback from the Audit and that it would be a report by exception. The DFS advised that the Committee would be given a copy of the report when it is received.

Action : Director of Finance and Strategy

A member asked how the outcomes of the report would be managed/ actioned and how that fitted in with the work of the internal auditor.

The DFS advised that the outcomes would be managed through the Task & Finish Group. In discussion, the IA advised that the external subcontracting certification Audit would be undertaken in February 2020.

There were no further matters raised by members arising from the report and it was resolved that it be noted.

GAUD/45/19**Audit Highlights Memorandum and Management Letter for Year Ending 31 July 2019**

The Financial Statements and Regularity Auditors (FS&RA) presented their Audit Findings report for the year ending 31 July 2019.

Minute No

The report covered the following matters:

- Status of the audit and audit opinion.
- Audit Findings and significant risks.
- Audit Findings Other Risks.
- Going Concern.
- Other communication requirements.
- Internal Controls.
- Misstatements.
- Regularity findings.
- Independence and ethics.
- Fees and non-audit services.
- Communication of audit matters with those charged with Governance.

The FS&RA commented that the Audit had gone very well and that there were very few issues or adjustments to be reported.

He further commented that the finance staff had worked very well to produce the required information and to assist with the Audit process.

However, the Auditor did comment that there were 2 issues that did need to be considered in detail one of which was a significant matter.

The first issue related to the change in the basis of recognition and allocation of the grant income compared to the previous year, which had resulted in additional income of £733k being recognised during the year 31 July 2019. The Auditor advised that he had discussed the treatment with management, challenging the appropriateness of the recognition and had reviewed the terms of the grant agreement. It was further advised that the treatment had now been agreed and the Committee noted the update.

The second issue, which was significant, related to the going concern statement in the DR&FS.

Within the Audit Memorandum Report, relating to the Audit opinion the auditor drew the Committees attention to the fact that the anticipated audit opinion would be unqualified and would include a material uncertainty related to going concern.

The auditor commented that this was due to the fact that management would be required to amend the going concern narrative in order to adequately explain the uncertainty surrounding the anticipated timing of the land sales, together with the commitment to a redevelopment programme. The Auditor further commented that this would impact on the ability of the Group to comply with its loan covenants which would affect the going concern statement.

The auditor advised of the proposed going concern wording in this context, which was noted. He further advised that the choice of wording was regulated by Financial Standards directives and therefore mandatory.

In explaining the opinion, the auditor commented that there were two factors driving the position namely the timing of the two proposed land disposals which was not within the Group's control and the commitment to the redevelopment which was due to be signed in January 2020.

The auditor also explained the forecasts and cash flow position that had influenced their opinion and the potential subsequent breach of covenant with the Bank. The auditor also explained the impact of a breach of covenant on the Bank's option to draw back the loan. The auditor also advised of actions that could be taken with regard to the redevelopment that could affect the position.

Minute No

The DFS responded to the FS&RA's view by advising the Committee of the mitigation factors that were in place together with the sureties in relation to position. These included a letter of comfort from the Bank, surety around the Stockport land disposal and timeframes and other associated factors.

Members discussed a wide range of issues with the auditor in relation to the opinion as follows:

- A member commented that in his view the auditor was taking an extreme view and that the balance of the risk did not warrant the opinion being made. He asked the auditor about his view of certainty. The Auditor advised that the wording being used was mandatory for the given particular circumstances.
- How the Audit had assessed the risk and what were the key dates in the scenario? The auditor advised on how the opinion had been reached and reiterated the key dates in terms of cash flow. The member suggested it might be worth looking at the forecasts again and any mitigating factors that could affect the position.
- What discussions had been held with the Bank? The DFS advised that the Bank had been really supportive and would provide a letter of comfort but not a waiver letter. A member asked what the auditor would expect to see in a letter of comfort and the Auditor advised that he would view the letter of comfort to see if it could mitigate the position.

Given the debate around the FS&RA's opinion it was suggested that further work needed to be undertaken in respect of mitigations that could impact on the position in terms of the following issues:

- A review of the current forecasts.
- A letter of comfort from the Bank and the auditor's view of the letter from a mitigation perspective.
- Discussions with ESFA regarding timing of accounts closure and other support in the short term.
- Review of the redevelopment expenditure including timings and its impact on cash flow.

Action: Director of Finance and Strategy

After due discussion and consideration, the Committee were of the view that they were not able, at the present moment in time, to make a recommendation to the Board of the Corporation concerning the Draft Report and Financial Statements 2018/2019.

It was therefore resolved that the Committee should give further consideration to the matter once the further work had been undertaken in respect of mitigation and the Auditor had had the opportunity to review the opinion.

Action: Audit Committee/ Director of Finance and Strategy/ Financial Statements and Regularity Auditors**GAUD/46/19****Board Assurance and Risk Management Framework 2019/2020**

The DFS presented a report, which updated the Committee in respect of the Board Assurance and Risk Management Framework.

The report provided members with a summary of the proposed changes to risk scores considered by the Risk Management Group at its meeting in August 2019.

Minute No

The DFS went through in detail the changes in scores which related to the strategic risks and advised the Committee that the following risks needed to be escalated to the Board of the Corporation as the net risk were in excess of 15:

- Failure to realise the benefits of the capital work project and deliver against cost and time parameters leads to additional strain on finances and/ or student performance.
- Failure to deliver financial sustainability.

The DFS outlined in detail the management actions that had been put in place to seek to address the escalated risks. The Committee debated in detail the actions taken in respect of the financial sustainability risk including the controls that are in place together with monitoring arrangements. A member commented that it might be helpful to put in measures to approve sustainability and the Committee debated this issue in relation to the current arrangements and the assurances based around the management accounts. After discussion, it was agreed that further thought could be given to the matter going forward.

There were no further issues raised by members arising from the report and after due discussion and consideration it was unanimously resolved that;

- The report be noted and the escalated risks (12 and 14) relating to the capital redevelopment project and the delivery of financial stability be recommended to the Board of the Corporation for approval.

Action: Director of Finance & Strategy/ Board of the Corporation

GAUD/47/19**Audit Tracker Report Update – November 2019**

The DFS presented a report, which detailed the management actions that had been taken in response to Audit recommendations up to the period November 2019.

It was advised that 9 of the 11 identified actions had been completed with 1 to be confirmed and 1 not yet due.

In answer to a question from a member the DFS undertook to process the “to be confirmed” recommendation.

Action: Director of Finance & Strategy

There were no further issues raised by members and it was resolved that the report be noted.

GAUD/48/19**Data Protection Annual Report 2019**

The Data Protection Officer (DPO) presented the Group’s Annual Data Protection Report 2019.

The DPO provided the Committee with an overview of each aspect of the Annual report, which covered the following matters.

- Policy, Procedure and Governance.
- Training.
- Subject Access Requests.
- Data Protection Impact requests.

Minute No

- Breaches. A member asked about the nature and the quantity of the breaches that had occurred. The DPO advised that there had been 8 recorded breaches during the year and explained the nature of the breaches. He confirmed, in answer to a question, that the notification of the breaches came from both internal and external sources and that a risk assessment had been undertaken with regard to each breach. It was further advised that following the risk assessments none of breaches had been determined as being reportable to the Information Commissioner's Office. A member asked about how the breach process was linked to the rules for staff and the disciplinary procedure and the CS advised of the information that had been given to staff regarding breaches in this context. In discussion it was agreed that in future the Group's breach register should be included in the GDPR Action Plan report in order to enable members to monitor the position.

Action: Data Protection Officer/ Corporation Secretary.

- How does the Group monitor perimeter issues? The DPO advised the Committee regarding the Digital Strategy and the cyber essentials work that was being undertaken. He also advised in relation to the External Network Structure (JANET). The Committee noted that this was a work in progress.

There were no further issues raised by members and after due discussion and consideration it was resolved that the report be noted.

GAUD/49/19**GDPR Action Plan Update**

The Corporation Secretary (CS) provided members with a copy of the updated GDPR Action Plan (November 2019) and provided the Committee with an overview of the activities that had been undertaken and the progress that had been made since the last meeting.

Members welcomed the continued progress that was being made in this area of activity and resolved that the update be noted.

GAUD/50/19**Any Other Business**

There were no matters raised under any other business.

GAUD/51/19**Date of Next Meeting**

It was agreed that the next meeting would be held at 6.00 pm on Wednesday 4 March 2020 in the Boardroom at the Altrincham Campus but that there might have to any extra Committee meeting before the next Board meeting dependent upon the outcomes from the discussions with the FS&RA.

Action: Corporation Secretary

The meeting closed at 8.30 pm.

Agenda item 15 was taken as agenda item 5 and agenda item 16 was taken as agenda item 6 after which the Data Protection Officer left the meeting at 6.22pm.

Agenda item 5 was considered as agenda item 11.

The internal Auditor joined the meeting at 6.45pm during the consideration of Agenda item 8.