CONFIRMED MINUTES

THE FURTHER EDUCATION CORPORATION OF MIDDLESBROUGH COLLEGE

MEETING OF AUDIT AND RISK COMMITTEE – 04.12.2018 (College Board Room)

PRESENT: A Malcolm (CG and Chairman), J Autherson (EM), A Coleman-Cooke (CG), I Wright (CG).

AUDITORS: R Barnett, (RSM), P Church (RSM).
R Fleming (KPMG), J Morgan (KPMG)

OFFICERS: Z Foster (Clerk), C Kipling (VP – Finance and Registry).

Key
CG - College Governor
EM - External Member
Clerk - Clerk to the Corporation
VP - Vice Principal

1. Private discussion with KPMG prior to business of Audit and Risk agenda
   C Kipling and RSM representatives left the meeting for this item.

   KPMG gave a general overview of audit activities which were comparable to previous years.

   Discussion included NSG, ratio pressure and bank confidence.

   A Malcolm asked about training for governors and RSM would add him to their email list.

2. Apologies received
   S Green (EM), L Holdsworth (CG).

3. Minutes of 18.09.2018
   There had been one minor amendment (p1 of minute) which had been amended. The amended minutes of 18.09.2018 were approved and signed.

4. Matters Arising not on the Agenda
   Four of the five matters arising items had been completed.

   Item 8 – RSM would provide a benchmarking report by the end of the academic year.

5. IT Security Plan Update – C Kipling
   C Kipling updated the Committee on the report and Action Log including:
   - Item 5 - Penetration testing was taking place in December and work was continuing
   - Item 12 – Disaster Recovery. Governors discussed this in detail, asking questions about payment arrangements, why Middlesbrough Council had been chosen, where the site was based and the potential safety of using them in terms of cyber threat.

   The Committee noted and agreed the extension to actions within the action log with the expectation that these would be completed by the next meeting in March 2019.

   It was agreed to invite A Wond to the next Audit and Risk Meeting for a full update.

6. Audit Matters
   6.1 Risk Management Annual Report 2017/2018 – C Kipling and Z Foster
   C Kipling reminded Governors of the requirements and key elements of the report.
It was agreed to recommend that the Risk Management Annual Report be approved at the next Governing Body meeting on December 18th 2018.

6.2 Internal Audit Annual Report 2017/2018 – C Kipling
C Kipling presented the report in the absence of ICCA. Highlighted areas included:
- The Annual Report was issued with an overall reasonable assurance that Middlesbrough College’s governance, risk management and systems of internal control were operating adequately and effectively, and that there were no instances where any breakdown of control resulted in a material discrepancy.
- Of the 10 audits completed in 2017/18, 8 had been given substantial assurance with 1 audit being advisory and therefore no assurance statement being required.
- There had only been one audit of reasonable assurance (Timetabling and Curriculum) and satisfactory work had now been completed in that area.
- 48 days had been given but 38 actually conducted. C Kipling outlined the reasoning behind this and gave assurances re rates charged
- She clarified that IT Business Continuity had not been completed as this would have been a duplication of work undergone with Security. This could be picked up again with RSM. Action by RSM to review this with A Wond.
- Of the 10 audits completed 8 had been given substantial assurance.
- In the current year 3 audits had also been given substantial assurance.

A Malcolm, on behalf of the Committee, thanked staff for their good work.

It was agreed to recommend that the Internal Audit Annual Report 2017/2018 be approved at the next Governing Body meeting on 18th December 2018

7.1 Draft Audit Findings Management Letter – KPMG
The management letter was presented to the Committee by KPMG. The final version would go to the Board on 18th December – no significant changes were anticipated, nor were there any areas of undue concern.

The overview included:
- KPMG were working through revenue recognition
- Some changes to NSG’s income position would be forthcoming
- No significant issues with journals testing and key judgements
- Pension liabilities – reasonable assumptions had been made by the College. KPMG confirmed that Teachers pensions would unlikely be affected by Lloyd’s legal case but LGPS may be
- Under ‘Cashflow’ – the complexities of financial ratios within the sector were discussed particularly in light of the College’s current ratio which was low following the high level of capital investment
- Subsidiary audits – a few outstanding points but nothing preventing signing off. The appendices were outlined with no areas of concern (green) but the following were highlighted:
  - Audit misstatements were discussed
  - One new recommendation had been added – recognition of revenue in respect of courses that cross the year end which Management had been happy to accommodate. It was agreed to add this recommendation to the Exception report.

It was agreed to recommend the final 2017/2018 Audit Findings Management letter to be approved by the Governing Body at its meeting of 18th December 2018.

Additionally:
- The current financial year had started well in terms of recruitment against plan
- The two dormant companies were discussed and it was agreed to hold onto these
7.2 Financial Statements Overview – C Kipling

C Kipling gave a comprehensive overview of the Financial Statements below for Governors and of the minor adjustments still to be done for completion including tax notes, slight changes to the narratives, final amendments by the College and KPMG.

C Kipling presented the annual accounts below and reported that the Board of Directors would sign the accounts following Governing Body approval of the College’s 2017/2018 Financial Statements on 18th December 2018.

7.2.1 Northern Skills Group Limited
7.2.2 Northern Apprenticeship Company Limited
7.2.3 Middlesbrough College

Governors’ discussion and questions included:

- A reconciliation had been carried out between the management accounts presented to the Governing Body on 18 October 2018 and the Financial Statements highlighting any movements which was useful.
- The reconciliation information which could be made available to those interested and the high level reconciliation management accounts which were to be considered at Corporate Services on 10th December
- Turnover which had been reduced on previous years
- An overview on how the apprenticeships with British Steel were working
- The positive relationship with the bank and the situation with bank loans and debt
- How last year’s performance had been with its challenges. C Kipling confirmed that the College had managed to deliver a budget close to expectations albeit a small operating deficit position.

The Audit and Risk Committee endorsed the accounts.

It was agreed to recommend that the 2017/2018 Financial Statements as above be approved by the Governing Body at its meeting on 18th December 2018, prior to being signed and returned to the Education and Skills Funding Agency before the 31 December 2018 deadline.


Z Foster drew attention to the main changes and A Malcolm took the Committee through the report in detail.

Governors and Auditors discussed the report and some minor changes/additions were agreed.

It was agreed to recommend that the 2017/2018 Annual Report of the Audit and Risk Committee be approved by the Governing Body on 18th December 2018 (subject to agreed changes)

9. Exception Report – C Kipling

C Kipling presented the report informing governors that all 11 recommendations had been fully completed since 18th September 2018. The one advisory recommendation in relation to Risk Management had now been completed.

Additionally, discussion and questioning included:

- That due to the fact three recent internal audits had taken place there would be further recommendations to go on to the next Exception Report for management response.
- Governors queried the processes for tighter data checking in relation to learner start dates.
- It was clarified that auditors did follow up on the audit processes with a yearly report.

It was agreed to add key external areas onto the Exception report where appropriate (as discussed in item 7.1).
10. Internal Audits 2018-2019 – RSM
RSM gave an overview including the fact that three of the eight reviews had now been completed and that dates were in place for the others.

10.1 Subcontractor: Due Diligence and Contract Management
This was considered a high risk area and auditors awarded substantial assurance which was very positive.

There were two low category recommendations i) Missing control ii) Payment Authorisation and Processing, the second of which was discussed in some detail

10.2 Financial Forecast: Stress Testing
This had also received substantial assurance from auditors, who drew attention to the fact it was rare to have no resulting management actions which was extremely positive.

All of the key areas had been tested. The college had been impressed by the calibre of staff undertaking the complex audits and felt assured that the processes were sufficiently challenging and robust.

The audit process was discussed by the Committee including: how sensitivities were determined, how often the 5-year financial plan was updated (annually) and ESFA requirements

10.3 HE Strategy/Income
This had considered the move to the Open University and the strategy going forward in particular. The auditors gave substantial assurance in this area.

There were a number of actions, one within the medium category in relation to the Complaints Policy and a third line of appeal. There were two others of low category: i) in relation to a stand alone higher education strategy requirement which governors would need to endorse ii) further inclusion of key information in the offer letter for students which had already been actioned.

A Malcolm, on behalf of the Committee thanked RSM for their reports

11. Risk Management Update – C Kipling/Z Foster
11.1 Revised Structure of Risk Management
C Kipling led a discussion about proposed revisions to the Risk Management Structure, key elements of which were:

i) the removal of the Risk Management Group and placing risk management firmly within the KPI termly meetings, key committee structures, quality cycle, curriculum management, SLT and appropriate Governing Body Committees

ii) to directly link the key risks outlined on the Strategic Risk register to SLT as ‘risk owners’ and for the SLT and Head of Governance to take ownership of termly updates to the register and updating Audit and Risk Committee accordingly.

iii) A revision of the Strategic Risk Registers to effectively articulate the above proposals and to provide clearer and detailed information for all parties.

Discussion and questioning included: the evolving approach to risk management and how often this was considered, the need to keep the basis reporting structure intact, assurances that there would be dedicated SLT time for Risk Management, the role of the Audit and Risk Committee in relation to compliance, and that there was additional detail behind the registers as presented.

It was agreed that the new document, specifically how it reported on quality and the level of detail given, was very useful for governors.
It was agreed to recommend the changes to the Risk Management Structure and changes to the Strategic Risk Register to be approved (and thereafter appended to the Risk Management Plan 2018-2019) by the Governing Body at its meeting on 18 December 2018.

A detailed discussion about the revised Risk Register took place including a Deep Dive into the Red Risk (Finance - Organisational Resilience) on the Strategic Risk Register, including:
- the need to keep this as a major or ‘red’ risk and the reasoning behind this (including high impact of the risk and Brexit)
- the dashboard overview and segregation of this to avoid any slippage on a termly basis
- C Kipling updated the Committee on September recruitment against the Curriculum plan. Governors discussed the difficulties of enrolment generally, in relation to HE, part time and full time, cancellations and withdrawals. C Kipling also outlined the hopeful positive effect of the new appointments in relation to sales and future pipeline of apprenticeship recruitment which was strong. HE recruitment and its complexities was also discussed in relation to this.

It was also agreed to ‘deep dive’ into the revised Curriculum Register at the next meeting. Agreed that this should be triangulated with Standards Committee.

12. Members Discussion – A Malcolm
   No issues raised

13. Dates of Next Meetings 2018-19
   - Tuesday 12 March 2019 at 4.15 pm
   - Tuesday 11 June 2019 at 4.15 pm

14. Any other Urgent Business
   None taken

ACTIONS TO BE COMPLETED

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>BY WHOM</th>
<th>DEADLINE</th>
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<tbody>
<tr>
<td>4</td>
<td>To provide a benchmarking report from client base</td>
<td>RSM</td>
<td>End of academic cycle</td>
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<tr>
<td>5</td>
<td>Invite A Wond to meeting in March for IT update</td>
<td>Z Foster/C Kipling</td>
<td>asap</td>
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<tr>
<td>6.2</td>
<td>RSM to review with A Wond IT Security Business Continuity</td>
<td>RSM/A Wond</td>
<td>asap</td>
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<td>7.1</td>
<td>Add recommendation about recognition of revenue in respect of courses that cross the year end to Exception report</td>
<td>C Kipling</td>
<td>By March meeting</td>
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<td>9</td>
<td>Add key external areas onto Exception report where appropriate (as per 7.1 above)</td>
<td>C Kipling</td>
<td>As appropriate</td>
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<tr>
<td>11</td>
<td>Deep Dive into Curriculum Register</td>
<td>Committee</td>
<td>March meeting</td>
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The meeting closed at 6.00 pm.