

Item 11.21

The Audit Committee Annual Report had been finalised as agreed.

Item 12.21

An update on risk management would be given later in the agenda.

21.21 AUDIT RECOMMENDATION TRACKING REPORT

The Clerk to the Corporation presented the report, which updated members on the progress of outstanding Audit recommendations. The cover sheet gave an update against all outstanding recommendations, together with a RAG rating. Responsible managers had been asked to provide updates for their areas, which were incorporated in the attached report. In total there were 24 recommendations, of which three were overdue and seven were in progress. Thirteen had been completed, none were superceded and one was not yet due.

The three areas with overdue actions were explained. Commercial activities had been closed due to the pandemic, so there had been no progress in reviewing this area. Low priority historical recommendations relating to recording keep warm activities for prospective students had not been actioned.

RSM would complete follow up work later in the year to independently review evidence of actions taken. This would be reported to a future committee meeting.

The Chair suggested that a more detailed summary of the status and priority of recommendations in the cover sheet may be helpful. Other Governors agreed that more clarity was required.

There was a discussion about the purpose of the report, the intention of management to keep sight of all recommendations made and to transparently share this with Governors. The Chair felt that it would be useful to have a view from management on whether there were any areas that were causing real concerns. The Director of Finance & MIS confirmed that the majority of recommendations were low priority and in some cases implementation dates may need to be reviewed. Managers needed to be realistic about agreeing initial implementation dates and also in focusing on recommendations when agreed.

It was **resolved** that the Audit Recommendation Tracking Report was **received**.

22.21 INTERNAL AUDIT REPORTS

Karen Gentles, Manager at RSM, presented the reports. Recent work had been completed remotely due to the ongoing pandemic.

01.20/21 Risk Management and Board Assurance Framework

The scope of the review was to review the strategy and policy for risk management and board assurance, as well as the arrangements for identification and assessment of risks. The overall conclusion was reasonable assurance over the design and application of controls in the area. Three medium priority recommendations had been agreed with management.

Clerk

The Director of Finance & MIS commented that the report confirmed that the college had the right approach, albeit that there was some way to go to ensure that changes were implemented and well embedded. The new corporate strategy and the revised management structure needed to be in place before 4Risk could be fully rolled out. Covid-19 had also impacted on progress.

The Chair asked if the management team were comfortable with the timeline for actions to year end. The Director of Finance & MIS responded that it was expected that Corporation would approve the corporate plan on 23 March and that the re-structure would be completed. These were the main actions that needed to be completed before the Board Assurance Framework and Risk Management updates could be finalised.

02.20/21 Governance Processes – Counter Fraud

The scope of the work considered the college's compliance with the Post 16 Audit Code of Practice in relation to counter fraud requirements. The conclusion gave reasonable assurance over the design and application of controls, and made three medium and four low priority actions. All actions were agreed with management. None of the audit findings indicated any problems, just a need to comply with the requirements.

The key action was the need to agree a counter fraud strategy, as this was now a 'must' element of the Audit Code of Practice. In response to a Governor question, the Director of Finance & MIS confirmed that this would be in place by the end of March. It was recognised that the assurance paperwork needed tightening up, but also that the size, scale and culture of the organisation offered a good level of protection against the likelihood of fraudulent payments being processed.

Governors asked about controls with Construction College Midlands, and were advised that staff were now fully working on college systems. There were some risks in working remotely, but these were not deemed to be material.

A Governor asked how many frauds the college had identified in recent years and it was confirmed that there were none in the last four years. There were some inherent risks in the sector, and some examples of actual frauds in other colleges, but nothing directly related to Walsall.

A Governor asked about the whistleblowing policy and noted the importance of having a champion for this.

The Director of Finance & MIS commented on the controls in place in relation to payment of suppliers and also for staff claiming overtime. Governors were reassured that systems were robust but commented that having a whistleblowing policy gave options to staff with concerns.

Governors discussed the quality assurances processes in place across the college and asked whether being accredited through ISO27001 would be beneficial. It was confirmed that the Exec team had ISO accreditation as a potential future workstream, although no decisions had yet been taken. Governors felt that an update to Corporation in the future would be helpful.

Particular risks around cyber security were discussed. This area had not been covered by internal audit for several years and would be considered in the plans for 2021/22.

Director of
Finance &
MIS

02.20/21 Creditors & Payments; Income & Debtors and Month End

The scope of the work included testing of selected controls in each of the areas. Previously agreed recommendations on the audit of Budget Setting and Budgetary Control in 2019/20 were also followed up to determine progress in implementation. The conclusion gave substantial assurance over the design and application of controls, and made one new low priority actions. Of the five previous recommendations, one had been implemented, three were in progress and one had been delayed due to Covid-19 All actions were agreed with management

The Director of Finance & MIS noted that another draft report, on HR and Payroll, had been received. The overall conclusion was substantial assurance. As it had not been possible to complete management responses in time for this meeting, the final report would be presented at the next committee meeting in June.

Internal Audit Progress Report

This was RSM's usual report to give members an update on audits planned and completed in year. The next visit would be in mid-April. Two client briefings had also been included for information. The Chair noted that the briefings were helpful and suggested that a full Governors' training session on risk appetite would be helpful. This would be considered for a future Governor Training Day. It would be a timely review, as it would link to the aspirations of the college and the new corporate plan.

Clerk

Benchmarking

RSM had provided their annual benchmarking report for information. The overall picture showed Walsall College performed well compared to RSM's other FE sector clients, although it was noted that different audits were undertaken in different colleges and therefore a full direct comparison was not possible. RSM had over 200 college clients across the general FE and sixth form sectors. A Governor asked if a comparison to just FE colleges would be provided, and RSM agreed to this.

RSM

It was **resolved** that the Internal Audit Reports be **received and accepted**.

23.21 TERMLY BOARD ASSURANCE AND RISK MANAGEMENT REPORT

The report was presented by the Director of Finance & MIS. It was noted that there had been positive learning from the full re-opening of college from 8 March and that the recent internal audit work had endorsed the approach being taken to board assurance and risk management. Further actions were planned and would begin to be rolled out as the corporate plan was approved and the re-structure implemented.

Governors **resolved** to **accept** the Termly Board Assurance and Risk Management Report.

24.21 ANNUAL ASSESSMENT OF PERFORMANCE OF AUDITORS

It was agreed that Karen Gentles and Mark Dawson should stay for the discussion.

Governors noted the written report, which indicated that management was satisfied with the performance of each audit service. There were no concerns to raise as working relationships with all auditors were very good. Due to Covid-19, all audit work in the last 12 months had been completed remotely. Although this had created additional work for college staff to upload documents for review, this had worked smoothly and there had been no concerns about the new processes.

The committee was also very happy with the consistently high quality of the audit reports received.

A Governor asked about value for money from the services. It was confirmed that this had been considered in tenders and at the point of extending the contracts for a further two years, which had been agreed at the committee's meeting in November 2020. Contracts had been tendered for three years with an option to extend by a further two years. It was management's view that RSM and KPMG were market leaders in the provision of education audit services. There were cheaper firms, but they did not provide the range of additional advice.

Governors **resolved** to **receive** the Annual Assessment of the Performance of the Auditors Report.

Karen Gentles left at 0940 hrs.

25.21 EXTERNAL AUDIT FEES

It was agreed that Mark Dawson should stay for the initial part of the discussion.

The Director of Finance & MIS advised members of the increased fee proposal received from KPMG. It was clear that there were more requirements and therefore more work needed to complete the external audit. Since KPMG tendered for the work in 2018, audit regulations had changed significantly, with new auditing standards being introduced, the need for more testing in some areas, improved documentation and greater use of specialists. The College had also grown by about a third since then, with the acquisition of WACC and CITB.

Mark Dawson confirmed the reasons for the fee increase and re-iterated that this was being applied to all FE sector clients, not just Walsall College. KPMG remained keen to work with Walsall College and to demonstrate that the services provided value for money. A discount had been applied, as if the college were tendering, fees would be higher than those proposed.

The Director of Finance & MIS commented on the time required to run a full tendering exercise and his view that this was not best use of management resources at this time. It was also clear that the overall service cost may increase if a tender process was completed.

Mark Dawson left at 0950 hrs.

Governors discussed the proposal. The responsibilities of Governors for appointing auditors were explained. The Audit Committee would be involved in key stages of the process and would make a recommendation

to Corporation for approval. Governor as well as management time would be required.

A number of aspects of the service and proposal were considered, including:

- That external audit was a requirement and that auditors had to follow very clear and detailed guidelines in carrying out the necessary work. Demonstrating value for money in this could be tricky;
- That regulation in the sector was increasing, which added to the complexities of the audit work;
- Whether tendering at this stage should be considered, and how this may look to external stakeholders if the decision was not to do this;
- That KPMG had an excellent reputation in the sector and had invested in it as an area in which they had expertise and understanding;
- Management's view that the audit for 2019/20 had been completed robustly and appropriately in the Covid-19 circumstances;
- The management time in running a tender exercise and then potentially establishing working relationships if new auditors were appointed;
- That the committee had considered the position, albeit without this fee information, at its meeting in November 2020, and agreed to extend all audit contracts by two years to 31 July 2023;
- The likelihood that if the fee increase could not be agreed, the college would need to tender the service as KPMG would withdraw;
- That the likely fee in the event of a tender was not known.

Taking account of all information provided and comments made, the Chair proposed that the increased audit fee be accepted. This was a pragmatic approach that recognised the increased scope of the audit, the management time commitment in tendering and that the services were due for tender again in March 2023.

Governors **approved** the external audit fees.

26.21 ANNUAL VALUE FOR MONEY REPORT

The Head of Finance introduced her report, which highlighted how value for money had been achieved in the previous academic year. Results had been affected by the coronavirus pandemic. Pressures from COVID-19, pay inflation, pension costs and non-pay inflation within a near static funding environment meant the College needed to adapt in the short to medium term to ensure it can maintain its strong academic and financial record longer term.

The focus was on economy, efficiency and effectiveness. Examples of each were cited. Governors particularly noted the following:

- Attendance, attainment and achievement;
- Pressures on pay and pension costs;
- Management of non-pay costs through robust procurement procedures;
- Financial health scores and the regular review of EBITDA.

Alan Woods left at 1000 hrs.

There was a discussion about risk appetite, college financial metrics, investment in curriculum, the intent to return to an Ofsted rating of outstanding and the financial impact of the new corporate strategy. This had declined considerably in this year compared to last year.

A Governor asked about the measurement of effectiveness during the pandemic and how teacher assessment had been completed. This could affect student progression if their grades were higher or lower. The Director of Finance & MIS confirmed that most vocational assessments had been completed as normal, and that teacher assessment had been for GCSE only, which was a small proportion of the overall total. The management team was confident that the assessment process had been robust.

The Chair asked about cash flow and ways of investing. The Director of Finance & MIS commented on the Treasury Management policy, which had also been discussed at the Finance and Resources Committee. Returns on investment were low, so options were limited. Debt repayment may be considered, but breakage costs on loans were extremely high.

The Chair also asked about EBITDA and whether this was in line with sector benchmarks. The Head of Finance stated that the ESFA used this as a measure and that 5% or above was considered to be reasonable. The Director of Finance & MIS added that staff costs as a percentage of turnover was a key metric, and that at Walsall this was under constant review as it was above the suggested benchmark.

Governors **resolved** to **receive** the Annual Value for Money Report.

15.21 DATE AND TIME OF NEXT MEETING

Tuesday 16 March 2021 at 0830 hrs.

The meeting ended at 1010 hrs.

How Governors challenged management		Impact of meeting on College	
21.21	Noted the need for more details in the audit recommendation report cover sheet.	24.21	Approved new external audit fee.
22.21	Whether having ISO accreditation would be beneficial for quality and control purposes.		
24.21	Whether audit services provided value for money.		
25.21	Discussed rationale for increased external audit fee.		