



**2019/20 ANNUAL REPORT OF THE AUDIT COMMITTEE
TO THE CORPORATION**

DECEMBER 2020

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1. Introduction

Corporations are required to have an audit committee to provide governors with independent advice on the college's audit arrangements and systems of internal control. It has a key role in acting as the governing body's 'independent arm' to ensure that the information provided to the governing body – and the systems that generate it – are robust and accurate.

The Audit Committee has a number of responsibilities, but its main purpose is to advise the Board on the adequacy of the operation of the internal control systems in the College. This covers not only financial controls but all activities and systems within the college. This is done in the audit committee annual report. The annual report must follow the requirements set out in the Financial Memorandum and the Post 16 Audit Code of Practice. The detailed requirements are summarised in Appendix 1.

This report outlines the work of the Committee for the period 1 August 2019 to 31 July 2020.

2.0 The Committee

2.1 Membership

The Committee membership for academic year 2019-20 consisted of the following:

Members

- Neil Yeomans (Chair)
- Cynthia Griffin (from October 2019)
- Gareth Wall
- Thana Nathan (co-optee)
- Martina Antoniou (co-optee to March 2020)

In line with the Post 16 Audit Code of Practice, membership excluded the Chair of the Corporation, the Principal, members of the Finance and General Purposes Committee, and the College's professional advisers. Of the five members, two were co-opted members with the remainder all members of the Corporation.

The following were in attendance by invitation:

Gerry McDonald, Group Principal & CEO
Suri Araniyasundaran, Deputy CEO
External Audit Service (KPMG)
Internal Audit Service (Scrutton Bland)

Fiona Chalk was the Director of Governance for the period to 31 October 2019. Elsa Wright was the Director of Governance from 20 January 2020. Interim Directors of Governance supported the committee in the intervening period.

2.2 Meetings

There were four meetings held during the year held on 24 September 2019, 5 December 2019, 5 March 2020 and 16 June 2020. The Committee has taken active steps to recruit to the committee and one new governor joined the committee in October 2019. Steps are in place to recruit a further co-optee with recent audit experience.

3.0 Overview: Business Considered

The Committee meets its responsibilities through requesting assurances from management and by receiving reports from the internal auditors, the external auditors and other specialists and advisers. During the year, the Committee gave attention to the following issues:

3.1 The Year-End 31 July 2019

3.1.1 – 3.1.4 summarises the business reviewed in respect of the Year-End 31 July 2019, at its meeting in December 2020.

3.1.1 Internal Audit Assignments

Scrutton Bland presented its Annual Report on the IA service.

3.1.2 The Internal Audit Service (IAS) Annual Reports

Scrutton Bland stated in its Annual Report 'In our opinion, for the year ended 31 July 2020 the College:-

- has adequate and effective risk management processes
- has adequate and effective governance processes
- has adequate and effective control processes, notwithstanding the high risk finding identified in our review of Apprenticeships; and
- has adequate and effective processes surrounding efficiency and effectiveness. '

3.1.3 Review of the work of the Financial Statements and Regularity Auditors

At the December 2020 meeting, the Financial Statements and Regularity Auditors (KPMG) issued an unqualified opinion stating that in their opinion the financial statements:

- give a true and fair view of the state of the Group's and the College's affairs as at 31 July 2020, and of the Group's and the College's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended; and
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and with the 2019 Statement of Recommended Practice – Accounting for Further and Higher Education.
- meet the requirements of the Accounts Direction dated 25 October 2019 issued by the Office for Students ('the OfS Accounts Direction')

3.1.4 Audit Committee Annual Report

The Audit Committee Annual Report was considered.

3.2 In Year reports

3.2.1 Internal Audit Service Opinions, Recommendations & Follow-up

Audit Provider: Scrutton Bland were appointed in the previous academic year as the IA Service provider from the first term of the 19/20 academic year.

Opinions & Recommendations: The Internal Audit Plan for the year covered the usual mandatory reviews of governance and risk management along with other designated system reviews. Some flexibility with the Plan was maintained to accommodate any changes in priorities in-year and this flexibility was used due to the Covid-19 pandemic, with two audits being moved to the 2020/21 academic year (Curriculum Planning and High Needs Learning Support) and others moving to completion via online meetings and data/reports. The Staff Performance Management audit was cancelled.

The systems covered were summarised as follows:

- Key Financial controls: Payroll – significant assurance
- Employer engagement - significant assurance
- Marketing – significant assurance
- Budgetary control - significant assurance
- Key Financial controls: cash handling – reasonable assurance
- Capital projects – strong assurance
- Risk Management and Governance – significant assurance
- Funding compliance: 16-18 and 19+ – significant assurance
- Subcontracting and partnerships – significant assurance
- Funding Compliance: Apprenticeships – reasonable assurance

Audit Follow-up: the College audit tracker log formed the basis for the audit follow-up review. This was reviewed by the Committee at each meeting. Of the 80 outstanding recommendations, 72 have been implemented and 8 are either part implemented or implementation is on progress.

Value for Money - each assignment report included a section regarding value for money and particular matters were highlighted as part of each review.

3.2.2 The Year-End 31 July 2020

3.2.2a The Internal Audit Service (IAS) Annual Report 2019/20

The Internal Audit Service (IAS) Annual Report 2019/20 summarises the work undertaken during the year and sets out their overall conclusion on the system of internal control, based on that work.

On the basis of the audit work undertaken, the IAS, Scrutton Bland stated:
They are satisfied that for the areas reviewed during the year that New City College has reasonable and effective risk management, control and governance processes in place, and that this opinion is unqualified.

3.2.2b Review of the work of the Financial Statements and Regularity Auditors

Financial Statements & Regularity Audit - The external auditors review and report on the College's financial statements and whether proper arrangements have been made for securing economy, efficiency and effectiveness in its use of resources.

The External Audit Strategy (EAS) for year ended 31 July 2020, summarising the approach proposed for this review, was presented to the Committee at the June 2020 meeting.

At its December 2020 meeting, the Committee was presented with an update on the progress of the external audit. The Committee discussed the final financial statements, the external auditor's management letter and regularity audit report and their representation letter and commented on the final reports and made such adjustments as necessary to their draft Annual Report to be presented to the Corporation meeting on 15th December 2020. (tbc)

The Auditors confirmed that they considered that the financial statements:

- gave a true and fair view of the state of the affairs of the College as at 31 July 2020 and of the College's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- had been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- had been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.

On that basis they are able to confirm that it:

- Indicated an unqualified opinion and confirmed that the College had made a fully compliant corporate governance statement.
- Advised that with no issues to bring to the Committee's attention following completion of the regularity audit programme, it expected to report that the College's Statement on Regularity, Propriety and Compliance was fairly stated in respect of whether the transactions underlying the College's financial statements were in all material respects regular for the year ended 31 July 2020

3.2.2c Fraud, Irregularity and Whistle-blowing

There were no cases of qualified disclosures of whistle-blowing, fraud or suspected fraud or irregularity, significant or otherwise were reported. Required to consider fraud as part of its assessment of the College's controls framework, the IAS reviewed the College's arrangements for the prevention and detection of fraud and corruption, alongside its accounts audit work and no issues that would require disclosure.

3.2.2d Risk Management 2019/20

In advance of discussions at the Board, the Committee reviewed the Register and commentary for each of the top ten risks. The committee also discussed the approach to risk management and effective reporting. The current risk profile is summarised as follows:

Strategic Risk	Rating pre mitigation	Rating post mitigation
Risk of not maintaining, if not improve on the Ofsted 'Good' grade	Medium	Medium
Risk that the curriculum offer does not meet local and national requirement	High	Medium
Risk of not being able to recruit, retain and develop staff	High	Medium
Risk that one or more of our sub-contractors are unable to deliver or create a harmful reputational issue	High	High
Risk of not keeping students and staff safe	High	Low
Risk of the lack of oversight by Management and Governors	Medium	Low
The risk of not achieving sufficient recurrent surpluses to be financially sustainable.	High	Low
Risk of the inability to fund short and long term investment	High	Low
Risk of non-compliance on statutory and regulatory matters	Medium	Low
Risk of inadequate systems and processes to enable effective delivery to student and efficient College operations	High	Low

3.2.3 Audit Planning 2020/21

3.2.3a Internal Audit Strategy and Annual Audit Plan for 2020/21

The Internal Audit Strategy for 2020/21 was discussed at the June 2020 meeting and the Internal Audit Plan for 20/21 was noted. The plan was reviewed in September 2020 and signed off by Corporation in November 2020.

4 The Committee's Effectiveness & Performance

The Committee's performance and its effectiveness are reviewed in the context of the Committee's Terms of Reference, the content of which follows those set out in the Post 16 Audit Code of Practice. An overview of the Committee's work is covered in Section 3 and Appendix 3. An assessment of the extent to which the Committee has fulfilled its responsibilities is made in Appendix 2. The committee will recruit a further co-optee in

2020/21 and develop a succession plan to replace one member, who will reach the end of his second term as a governor at the end of the 2021/22 academic year

5 Conclusion

5.1 Context

In forming its conclusion, the Committee has reviewed:

- Reports presented by the College regarding arrangements for the adequacy and effectiveness of its systems and arrangements for risk management, governance and internal controls; and responding to the conclusions of the reviews of those arrangements by the Internal Audit Service;
- The work of the College Internal Auditors, through its reviews in accordance with the audit plan for 2019/20 and the standards outlined in the associated reports presented; and the 'Overall Assurance and Opinion' statements regarding risk management, governance and internal controls, contained in page 1 of the Internal Audit Annual Report;
- The work of the College External Auditors;
- Its own performance and its effectiveness in the context of its Terms of Reference

5.2 Committee Opinion

Based on the audit work undertaken and the opinions and recommendations made and reviewed during the year, it is the conclusion of the Committee that, subject to the satisfactory conclusion of the financial statements audit, a fair assessment has been presented of:

- The College's internal control systems and arrangements for the adequacy and effectiveness of its systems and arrangements for risk management; and the extent to which they may be relied upon.
- The affairs of the College and its Financial Statements as at 31 July 2020 and of the College's income and expenditure, recognised gains and losses and cash flows for the year ended
- The work of the Committee and its view that it has taken appropriate steps to perform its duties as delegated by the Corporation; and that it has had no cause to raise any issues of significant concern with the Board arising from its work during 2019/20. It will continue to vigorously monitor and review performance.

And therefore, the Committee wishes to advise the Corporation and Principal/Accounting Officer that it is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and processes for the effective and efficient use of resources, the solvency of the institution and safeguarding of its assets.

The Board is invited to endorse the Annual Report of the Audit Committee.

Appendix 1

Post 16 Audit Code of Practice 2019-20 (July 2020) extract from publication

28. The corporation must set out clear terms of reference for the audit committee. These should reflect accepted good practice for audit committees of publicly funded organisations and as a minimum must set out:

- the committee's right to investigate any activity within its terms of reference
- the committee's right to access all the information and explanations it considers necessary, from whatever source, to fulfil its remit
- a requirement for the corporation to appoint a minimum membership of three, a majority of whom must be governors, which must not include the chair of the corporation or principal
- a responsibility for the corporation, in appointing members, to maintain the committee's independence and objectivity³
- a requirement for the corporation to include individuals with an appropriate mix of skills and experience to allow the committee to discharge its duties effectively; collectively, members of the committee should have recent, relevant experience in risk management, finance and assurance
- a restriction on the committee not to adopt an executive role

29. In addition, the audit committee must:

- assess and provide the corporation with an opinion on the adequacy and effectiveness of the corporation's assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency, and the safeguarding of assets
- advise the corporation on the appointment, reappointment, dismissal and remuneration of the external auditor, reporting accountant, internal audit (as applicable) and other assurance providers (as applicable) and establish that all such assurance providers adhere to relevant professional standards
- inform the corporation of any additional services provided by the external auditor, reporting accountant, internal audit (as applicable) and other assurance providers (as applicable) and explain how independence and objectivity are safeguarded
- review and consider the reports of external auditor, reporting accountant, internal audit (as applicable) and other assurance providers (as applicable), and monitor the implementation of recommendations to agreed timescales
- oversee the corporation's policies on and processes around fraud, irregularity, impropriety and whistleblowing, and ensure:
 - o the proper, proportionate and independent investigation of all allegations and instances of fraud and irregularity
 - o that investigation outcomes are reported to the audit committee
 - o that the external auditor (and internal auditor if applicable) are informed of investigation outcomes and other matters of fraud, irregularity and impropriety, and that appropriate follow-up action has been planned/actioned
 - o that all significant cases of fraud or suspected fraud, theft, bribery, corruption, irregularity, major weakness or breakdown in the accounting or other control framework are reported to the ESFA, and other relevant funding authority, as soon as possible
 - o risks around fraud have been identified and controls put in place to mitigate them

- produce an annual report for the corporation, summarising the committee's activities relating to the financial year under review, including:
 - o a summary of the work undertaken by the committee during the year
 - o any significant issues arising up to the date of preparation of the report
 - o any significant matters of internal control included in the reports of audit and assurance providers
 - o the committee's view of its own effectiveness and how it has fulfilled its terms of reference
 - o the committee's opinion on the adequacy and effectiveness of the corporation's assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency, and the safeguarding of assets.

The annual report to the corporation should be submitted to the corporation before the statement of corporate governance and internal control in the annual accounts is signed.

Extract from The Audit Committee's Terms of Reference (September 2020 Update)

Term of Reference	Evidence of Performance
3.1 Assess and provide the corporation with an opinion on the adequacy and effectiveness of the college corporation's assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets	Reports reviewed at each meeting and opinion given to the Board.
3.2 Ensure that an appropriate risk management framework is in place and is operating as intended	Reviewed and monitored by Committee. Alternative sources of assurance reviewed
3.3 Ensure that key risks to the achievement of NCC's strategic objectives are identified. monitored and reported to each meeting	Reviewed and monitored by Committee. Alternative sources of assurance reviewed
3.4 Advise the corporation on the appointment, reappointment, dismissal and remuneration of the external auditor, reporting accountant and other assurance providers (if applicable) and establish that all such assurance providers adhere to relevant professional standards	A new internal audit service was appointed for 2018/19, 19/20 and 20/21
3.5 Inform the corporation of any additional services provided by the external auditor, reporting accountant and other assurance providers (if applicable) and explain how independence and objectivity were safeguarded.	Reports presented and reviewed as appropriate.
3.6 Monitor, within agreed timescales, the implementation of recommendations arising from any reports of audit and assurance providers	Reports reviewed at each meeting
3.7 Oversee the college corporation's policies on fraud, irregularity and whistleblowing, and ensure: <ul style="list-style-type: none"> a. The proper, proportionate and independent investigation of all allegations and instances of fraud and irregularity b. That investigation outcomes are reported to the audit committee c. That the external auditor (and internal auditor if applicable) has been informed, and that appropriate follow-up action has been planned / actioned d. That all significant cases of fraud or suspected fraud or irregularity are reported to the appropriate funding body e. That risks around fraud have been identified and controls put in place to mitigate them 	No reported instances of fraud, irregularity or whistle-blowing (S3.2.2b refers). Whistle-blowing Policy in place and reviewed at October 2020 meeting
3.8 Produce an annual report for the corporation, summarising the committee's activities relating to the financial year under review, including: <ul style="list-style-type: none"> a. A summary of the work undertaken by the committee during the year b. Any significant issues arising up to the date of preparation of the report c. Any significant matters of internal control included in the reports of audit and assurance providers d. The committee's view of its own effectiveness and how it has fulfilled its terms of reference e. The committee's opinion on; the adequacy and effectiveness of the college corporation's assurance arrangements; its framework of governance, risk management and control; and its processes for securing economy, efficiency and effectiveness in the use of its resources, solvency, and the safeguarding of assets f. A statement on data quality g. Submit the annual report to the corporation before the statement of corporate governance and internal control in the annual accounts is signed 	Report presented at the December 2020 meeting containing all points and reviewed in advance of making recommendations to the Corporation regarding approval
3.9 Review the self-assessment questionnaire completed as part of the preparations for the drafting the statement on regularity, propriety and compliance.	Considered at the October meeting. Signed off by Corporation at November 2020 meeting
3.10 To review its terms of reference at least biennially.	Reviewed September 2020 as part of the self-assessment process

AUDIT COMMITTEE: BUSINESS PLAN 2019/20 (main items)**Autumn Term Meeting: Business****1. Financial year-end 2018/19:**

- Year-end Auditor's Management Report
- Auditor's Regularity Audit Report
- Auditor's Letter of Representation
- Internal audit report
- Internal Audit Service: Audit Annual Report
- Regularity Audit Self assessment questionnaire
- Annual Risk Management and Board Assurance report 2018/19
- Audit Committee Annual Report

2. In-year Performance: 2019/20:

- Internal Audit Service: IA Plan 2019/20 and assignment reports
- Implementation of Audit Recommendations: Progress Review
- Risk Management Strategy, Plan & Register 2018-19

Spring Term Meeting: Business**1. In-year Performance: 2019/20:**

- Internal Audit Service: Update on 2019/20 audit activity & assignments
- Implementation of Audit Recommendations: Progress Review
- Risk Management Update
- Plan for 2020/21 and 3 year plan