

Minutes of the meeting held in the Board Room at the Derby Road site on Thursday 1st December 2016 at 5.00 pm

BOARD MEMBERS David Overton, Chair
PRESENT: Jamie Fryatt
Neil Robinson
Darren Wilkinson

ALSO IN ATTENDANCE: Dame Asha Khemka DBE
Andrew Martin, Deputy Principal/Director Finance
Louise Knott, Director of Communications, Marketing and Learner Engagement
Tom Stevens, Executive Director Capital Projects and Estates
Rachel Bates, Note Taker
Andy Argyle, KPMG
John Presley, KPMG
John Tomlinson, KPMG
Louise Tweedie, RSM

	ACTION by whom	DATE by when
<p>16.35 <u>APPOINTMENT OF THE COMMITTEE CHAIR 2016/17</u></p> <p>David Overton was nominated as the Committee Chair.</p> <p>AGREED to appoint David Overton as the Audit Committee Chair for 2016/17.</p>		
<p>16.36 <u>DECLARATION OF INTERESTS</u></p> <p>The Chair reminded those present to declare at the start of the meeting any interests in matters to be considered. No interests were declared.</p>		
<p>16.37 <u>WELCOME INTRODUCTIONS AND APOLOGIES FOR ABSENCE</u></p> <p>Apologies for absence were received from Chris Winterton and Maxine Bagshaw.</p>		
<p>16.38 <u>MINUTES OF THE MEETING HELD ON 8th JULY 2016</u></p> <p>The minutes were agreed as an accurate record of discussions.</p> <p>AGREED to approve the minutes of the meeting held on 8th July 2016.</p>		

Signed : _____ Chair

Date:

16.39 **MATTERS ARISING AND ACTION PROGRESS REPORT**

It was noted that the action regarding Data Protection was on the agenda and therefore could be removed from the Action Progress Table.

16.40 **INTERNAL AUDIT ANNUAL REPORT 2015/16**

Louise Tweedie presented to members the Internal Audit Annual Report from RSM for the period ended 31st July 2016 covering the academic year 2015/16.

The report concluded that there was an adequate framework in place for Risk Management, Governance and Financial Control and that overall Governance was effective. The remainder of the report summarises the individual audit reports for the last year and the basis for internal audit's opinion.

AGREED: to note the update provided

16.41 **INTERNAL AUDIT PROGRESS REPORT**

It was noted that a number of dates have been identified to undertake the internal audit work during 2016/17. Whilst the first visit is imminent none have taken place yet (in line with the Internal Audit Plan).

Louise Tweedie highlighted for Members some national key points to note for the academic year including the Skills Funding Agency's objective to introduce a simplified funding system and the implications for international students and sector EU funding following.

A summary of the top three risks which it is recommended that colleges consider within their risk registers were also highlighted including the outcomes of the area review process. It was noted that that these were already contained within the college's risk register.

AGREED: to note the update provided

16.42 **COMPOSITE COLLEGE PROGRESS AGAINST RECOMMENDATIONS REPORT**

The Director of Finance presented an update on progress against recommendations from internal and external audits during 2015/16 and a few outstanding from previous academic years.

It was confirmed that the action relating to the gas-drop had now been completed, actions have also been cleared on 2014/15 relating to payroll checks and financial controls.

It was noted that managers are committed to fulfilling the actions for 2015/16 within the designated timescale.

Signed : _____ Chair

Date:

Those outstanding will move to January. The Chair requested that all deadlines be met against deadline and the Director of Finance confirmed he would impress the importance of this on those indicated.

AGREED: to note the update provided

16.43 2015/16 FINANCIAL STATEMENTS AND AUDIT MANAGEMENT LETTER

Apologies were provided to the Committee for the late circulation of the financial statements and audit management letter. This was due to challenges in completing the documentation in line with the timescale. Andy Argyle from KPMG presented the financial statements to members and welcomed colleagues John Presley and John Tomlinson to the meeting. Andy outlined for the Committee the main findings from 2015/16 with a number of key points highlighted.

It was noted that whilst there had been no major surprises within the group activity, much work had been done in the transition to the new accounting standard FS102. KPMG felt that the college team had coped well with this process, though there had been some difficult adjustments particularly relating to bksb and pensions. The main complexity was highlighted as the reporting of pensions with the income statement.

It was noted that whilst bksb is a subsidiary of the college Group the accounting is treated in the same way.

Q In relation to annual leave, the Committee questioned whether employees can carry over holidays, it was confirmed that this was only in exceptional circumstances and a maximum of 5 days only. An issue that has arisen in terms of annual leave was that the college's calendar year ends on 31st August whilst the financial statements end 31st July. It is therefore hoped that following consultation with the trade unions, to align this in 2017/18.

Andy advised that the audit had identified two small adjustments with a total value of £0.12 million for 2015/16 – to accrue for retentions on the College's ongoing capital development and £0.47 million for 2014/15 restated figures, to account for the change to measurement of net finance cost on defined benefit plans. The impact of these adjustments is to increase the interest expense by £0.47 million, and decrease the actuarial loss by the same for the 2014/15 figures.

One performance improvement observation was brought to the Committee's attention, in relation to the Local Government Pension Scheme. The Group's Local Government Pension Scheme Liability, increased by £8.671m (57%), from £15.145m to £23.816m in the current year and could increase further over the next 3 years. It was noted that this was a national issue and that the college was limited with what it could do.

Signed : _____ Chair

Date:

Q The Committee questioned if there were any examples in the sector whereby other options or strategies were available. It was noted that the college had already established VBSS to try to address some of the issues. AM reported that there was a tri-annual evaluation due at the end of the year and that the college should wait to challenge any assumptions until after that time. Once the outcome of that review was known, the Committee would then be in a position to consider whether there was an appetite to challenge. As a longer term, the Board will need to look at safeguarding and radical ways to address this. It was agreed that the AoC be approached to make a statement on behalf of the sector and that a letter of representation be drafted by the auditors for the Chair following the tri-annual revaluation.

DF/KPMG

February
2017

The Committee were advised that the college had not adopted a re-evaluation policy for its land and buildings and had chosen to continue using the existing cost model on conversion to FRS102. The Committee questioned the rationale behind this and it was confirmed that it was previously agreed to undertake this every 3-4 years. The last evaluation was around 4 years ago and undertaken for insurance purposes, since that time there has been no need or advantage to do this again.

Q

Q The Committee questioned the income on page 11 and it was confirmed that bksb was not included within the figure.

John Tomlinson from KPMG provided for the Committee a brief synopsis of sector-wide developments within further education. The area -based review waves 4 and 5 are currently underway with the D2N2 first steering group meeting held on 8th November. Nationally there is much merger activity in the sector with one locally in Nottingham City. The Apprenticeship Levy is due to be implemented in April with colleges advised to remain flexible and respond quickly to the reforms. In terms of Ofsted, the number of colleges graded good or better is 71% with 30% of the sector requiring improvement or inadequate. Key within the new inspection framework are study programmes, maths and English and safeguarding with employers aware of their duties. The EFA and SFA are currently undergoing a restructure with a possibility of merger.

AGREED: to note the content of the 2015/17 financial statements audit management letter.

16.44 **2015/16 DRAFT MEMBERS' REPORT AND FINANCIAL STATEMENTS**

The Members' Report and Financial Statements were presented to the Committee and key points to note were highlighted.

The Group generated a historic cost surplus before defined benefit pension adjustments other gains and losses in the year of £738k (2014/15 – surplus of £2,010k), with total comprehensive income of £50,423k, a decline of £8,85 due to end of the ESF workforce programme which ended July 2015 with £7.5m income.

Signed : _____ Chair

Date:

The Group has accumulated reserves of £8,926k (2014/15 - £8,189k) excluding defined benefit pension liabilities and cash and short term investment balances of £6,688k (2014/15 - £11,259k). The Group wishes to continue to accumulate reserves and cash balances in order to further invest in the facilities and resources for students and employers.

Tangible fixed asset additions during the year amounted to £6,145k (2014/15 - £2,430k). This was split between land and buildings acquired of £5,330k and equipment purchased of £815k. In the main, this related to the new Higher Skills Centre building on the Derby Road campus which was completed in September 2016. The building cost £6.5 million and provides a purpose built facility for the College to deliver higher level skills to meet the identified needs of the Local Enterprise Partnership and support skills acquisition to boost local productivity.

Surpluses generated by the subsidiaries are transferred to the College under deed of covenant to the extent that this does not result in a distribution of reserves. In the current year, the surpluses generated were £1,417k (2014/15 - £1,204k) for bksb Limited, a loss of £40,041 (2014/15 – surplus of £400,373) for VWS, a loss of £21,813 (2014/15 - loss of £2,624) for VA and a profit of £10,333 for VBSS (2014/15 - £zero).

Q

The Committee questioned the negotiating down of the covenant and whether income was likely to decrease further. The Director of Finance confirmed that the Group would see an income of £9m and would not decrease. It was suggested that the Chair meet with the Director of Finance to go through in detail the statements.

AGREED: to recommend that the Board approve the 2015/16 draft members report and draft financial statements

16.45 **AUDIT SERVICES ADDITIONAL NON AUDIT WORK 2015/16**

The Director of Finance presented the annual report to the Committee which sets out the activities completed by the College's internal and external auditors not contracted through the main internal or external engagement letters.

It was confirmed that during the last financial year the College commissioned KPMG to undertake a review of the College's sub-contracting arrangements as required under our financial memorandum with the SFA. This work was commissioned following open competitive tender and was carried out in January 2016. The cost was £6,000 + VAT with the report presented to the Audit Committee.

The College was recently selected for an ILR funding audit by the SFA and again this work was awarded to KPMG by the SFA.

Signed : _____ Chair

Date:

Finally Baker Tilly were commissioned following a tender process to carry out an investigation into a College sub-contractor at a cost of £8,381 + VAT again this report was presented to the Committee. It was noted that recovery of cost was unfortunately not possible.

AGREED: to note the content of the report.

16.46 ILR FUNDING AUDIT

The Director of Finance presented to members the report from the Skills Fundign Agency following the ILR funding audit which had taken place earlier in the term. The audit had a relatively clean outcome from the sample checking. 80 learner files were sampled with auditors looking at compliance against sub-contractor rules. A number of adjustments were identified particularly around traineeships.

In summary subcontracting arrangements and ESF were found to be in accordance with the funding rules with no issues, however recommendations were identified in terms of the Traineeship provision.

The Committee noted the positive outcomes of the audit but felt that overall there needed to be a more dyanimic approach to compliance within curriculum areas and improved communication to inform people of their obligations.

AGREED: to note the content of the report.

16.47 SUB-CONTRACTING AUDIT ARRANGEMENTS

The Director of Finance provided a verbal report for the Committee and an interest was declared for both KPMG and RSM.

It was noted that the college would be iminently tendering for an audit of its sub-contractor requiriements, as requested under the memorandum of understanding with the SFA in January 2017.

AGREED: to note the process to be undertaken.

16.48 RISK MANAGEMENT UPDATE

The Direcctor: Communication, Marketing and Learner Engagmeent presented the most up to date version of the college's risk restier.

It was noted that there was little change to the risk environment at this stage in the academic year however one of the risks attached to the property strategy had been changed to green now that the HE Centre has been completed. This might re-appear as we move thorough the year into next round of maintenance of the estate rather than capital works.

Signed : _____ Chair

Date:

The highest risk remains the external environment particularly around the area review process. The college is nearly at the end of its restructuring of the work-based learned team which was actioned to ensure the college's preparedness for the apprenticeship reforms.

It was noted that risk 9 onwards are contingent risks.

Q The Committee questioned how subcontractors were tracked within the organisation in terms of safeguarding duties. It was noted that all visitors have to sign in at reception as they would not be alone with students, a leaflet identifying expectations is also provided to all external visitors.

AGREED to note the contents of the risk register and the accompanying KPIs.

16.49 ANTI-FRAUD AND CORRUPTION UPDATE 2015/16

The Director of Finance presented this report providing a summary of the outcomes of proactive and reactive fraud investigation work in 2015/16.

It was noted that during 2015/16 the College did not receive any directly reported or alleged cases of fraud or irregularity. However, in March 2016 the college was asked to comment upon an investigative piece being pursued by the Guardian in relation to Sports Direct through its partner agreement with Transline. The College provided information about the number of apprentices funded through our contract with Transline (Sports Direct) and there was no suggestion of eligibility issues with any of the learners concerned. The College has since declined to take further apprenticeship starts through Transline.

In June 2015, the College was notified of an allegation of potential irregularity regarding a Partner named 'The Development Fund'. Baker Tilly were appointed and were satisfied that funding had not been claimed inappropriately and was in line with the funding rules. The funding Agency were notified of the outcome as were the College Audit Committee.

In July 2015 the College was notified of an alleged potential irregularity regarding a partner named Harrow International Business School (HIBS). The closure of this investigation has been formally confirmed by the Skills Funding Agency and no further action is expected.

Finally, the college has recently received an allegation of irregularity relating to a provider in the north west which has extended to 6 college contracts (the largest of which sits with Telford). A joint investigation will take place sampling 155 learners in total (15 from our college).

Signed : _____ Chair

Date:

AGREED: to note the contents of the report.

16.50 AUDIT COMMITTEE ANNUAL REPORT

The Director of Finance presented this report in the absence of the Clerk.

The report is presented in accordance with the requirements of the Joint Audit Code of Practice. There is a requirement that the report provides the Audit Committee's opinion as to whether the College has:

- Adequate and effective audit arrangements in place.
- An adequate and effective framework of governance, risk management and control.
- Adequate and effective processes for securing economy, efficiency and effectiveness.

This is then presented to the Board for their approval.

It was noted that whilst no longer mandatory for the college to have an internal audit service the Committee and the Board agreed to continue with the internal audit service for 2016/17.

Members considered the annual report and AGREED that the reporting in place for the Audit Committee was adequate as presented.

Neil Robinson left the meeting at 6.35 pm

16.51 DATA PROTECTION REPORT

The Director: Communication, Marketing and Learner Engagement presented this paper which had been identified as a requirement as a result of risk monitoring arrangements.

Whilst data protection was a contingent risk in the risk register, a report had not been presented to the Committee since 2012/13. Section two of the report outlines the key requirements within the data protection act and how this is applied. It was noted that the college has a data protection policy and procedure in place which sets out the way in which staff are expected to process, save and distribute personal data.

The college asks all students to sign a data protection declaration at application and again at enrolment. This gives the college the right to use personal data for our own internal marketing purposes (unless an individual opts out) and enables us to provide data to agencies such as the SFA.

The college receives routine requests for information.

AGREED: Members noted the content of the report.

Signed : _____ Chair

Date:

16.52 **CODE OF GOVERNANCE COMPLIANCE CHECK**

The Director of Finance presented this paper in the absence of the Clerk. The report is effectively a checklist which has been derived from the Association of Colleges' (AoC) Code of Good Governance for English Colleges to measure the Committee's compliance against audit protocol.

Members were asked to review and note the checklist and the college's compliance against each item.

16.53 **AOB**

There were no items of additional business.

16.34 **DATE OF NEXT MEETING**

The Clerk confirmed that the next scheduled meeting was 9th February 2017 at 5.00 pm.

The meeting closed at 7.00 pm.

Signed : _____ Chair

Date: