

Minutes of the meeting of the Audit Committee held in the Boardroom, Derby Road site, on Thursday 27th June 2019

MEMBERS PRESENT: Neil McDonald, Chair
Rebecca Joyce
Sardip Sandhu

ALSO IN ATTENDANCE: Maxine Bagshaw, Clerk to the Corporation
Andrew Cropley, Principal
John Owen, Interim Finance Director
Louise Tweedie, RSM
Mark Dawson, KPMG

MEETING WITHOUT MANAGEMENT BEING PRESENT

The Chair confirmed that this was an opportunity as a group to hear Auditors' viewpoints as they have been with the college for a long time. They asked whether there were any barriers that they have faced and whether or not there is anything that this Committee can take forward in terms of improving the quality of the audit service. They invited auditors to identify any key matters that they would wish to bring to their attention. These were:

- There has been a lot of change at mid-tier in the finance department. These are the individuals who take the burden of audit, however, there have been others in the team who have stepped forward positively. Experience of the new individuals will develop.
- Auditor working with Louise Knott and John Owen has been positive.
- There have been some changes to the planned internal audit fieldwork dates, but these were for no particular reason.
- It is clear that there are a number of people who are employed that are really committed to making this college a success. They have tried hard to help and the passion is still there.
- Staff are now engaged with plans for improvement and change.
- External auditors confirmed that the college has been very open and transparent in terms of the issues, particularly the

ACTION by whom	DATE by when

Signed : Neil McDonald Chair

Date: 17.9.19

difficulties regarding closing the 17/18 accounts. All staff involved were eager to provide any information necessary to ensure that issues were resolved and the accounts finalised.

- Preparedness for audit was good, as was the clarity in terms of the numbers.
- In terms of the last external audit the extra effort required was in relation to going concern and the need to obtain certainty in relation to this.
- The staff changes in the finance team, particularly with the departure of Mark Albrighton and John Owen in his interim role, need to be monitored. Sufficient capacity within the finance team needs to be assured.

The Committee then asked whether there were any improvement suggestions. These were:

- Management team is focusing on the right areas but there is a lot to do. The single biggest concern is capacity.
- New staff will bring good practice recommendations to the college
- The challenge for the college is in relation to all of the regularity actions required but still ensuring that the college moves forward.
- Delays in any process are a drain on time and resources.

Auditors were thanked for their frank and open comments, all agreed that they had found this a useful opportunity. The Chair asked that 10 minutes be provided at the beginning of every meeting so that the Committee can meet with auditors without managers present.

(Andrew Copley and John Owen joined the meeting at 5.05pm).

1 DECLARATION OF INTERESTS

The Chair reminded everyone present to declare any interests that they may have on agenda items to be discussed. No interests save for standing declarations were noted. Auditors confirmed that they would leave the meeting prior to discussions regarding future internal/external auditor appointment.

2 APOLOGIES FOR ABSENCE

There were no apologies for absence.

The Chair took this opportunity to raise his concerns regarding the late provision of papers, as this prevented Governors from preparing properly. It was agreed that, if there were any items that Governors felt they could not do justice to, these items would be postponed to the next meeting. The Committee recognised that illness does occur but were concerned that there did not appear to be a backup plan on this occasion. A request was made for the Clerk and the Principal to meet

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outside the meeting to review the processes supporting the provision of papers. The Chair indicated that, because of the late provision of papers, the focus this meeting would be on items for decision and discussion and the Committee will only consider other information items if they are happy to do so.

3 **MINUTES OF THE MEETING HELD ON 4TH APRIL 2019**

The minutes were reviewed and it was agreed that they were an accurate record of discussions.

AGREED: to approve the minutes of the meeting held on 4th April 2019.

There were no matters arising.

5 **ACTION PROGRESS REPORT**

The Committee considered the table and a number of matters were discussed/noted:

- In relation to line 2, the Committee indicated that they would wish to see the fixed asset register completed by the end of July and not August 2019. They strongly communicated the fact that they would not wish to see further target date slippage.
- Line 4 – the anti-fraud, bribery and corruption training for staff has taken place today.
- In relation to line 7, it was confirmed that this specifically related to Cap Ex. The clerk expressed the view that this action inter-related with a Board action where the agreed date was November 2019. A question from the Committee was whether or not the plans in relation to BKS B would fall under the remit of a project. It was agreed that this did not fall within the narrow remit of this line.

AGREED: to note the content of the update provided.

6 **KPMG 2018/19 PLANNING MEMORANDUM**

Mark Dawson from KPMG presented the document and confirmed that the scope was the same as the previous year. He particularly drew the Committee's attention to the additional disclosures required under the accounts direction. The planning memorandum was considered on a page by page basis including:

- Page 3 – this sets out the main purpose of the audit which includes assurance that the accounts give a true and fair view of the state of the group and the colleges affairs as at 31st July 2019, as well as the fact that the accounts have been properly prepared in accordance with accounting standards. He advised that they will also carry out engagement to obtain limited assurance about whether anything has come to their attention which would suggest that, in all material aspects, the

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expenditure dispersed and income received have not been applied for the purposes identified by Parliament and the financial transactions do not conform to the authorities that govern them.

- Subsidiary companies will also be included in the audit. In relation to BKSB India, there will be some limited assurance testing regarding the finances as at 31st July. BKSB India will be consolidated in to the accounts of the group for the first time this year. They were previously audited separately and not consolidated, however, the size of activity is now at the stage where it should be consolidated. It was noted that this company has a March yearend, therefore there will be a need to review the management accounts for the period April to July 2019. It was confirmed that the activity of BKSB India is not material to the group but is reaching the point of materiality for the limited company. It was noted that, if the subsidiary companies are liquidated before finalisation of the accounts, an audit in relation to their activities will not be required.
- Page 4 sets out the materiality limit and how this is calculated. It is based upon 2% of revenue for the college. The revenue for the college is £33.3 million and therefore materiality for the college is calculated at £665k. It was confirmed that this is the same method of calculation as used in previous years.
- Page 6 sets out the significant risks; these include:
 - a) Fraud risk in relation to revenue recognition. As most of the college's income is grant, this is less of a risk than with other colleges.
 - b) Management override of controls – here auditors will be looking to see segregation of duties in the finance department and appropriate scrutiny and challenge.
 - c) Valuation of pension assets and liabilities
 - d) Overall financial position and going concern
 - e) Regularity

They confirmed that the areas of identified risk are the same as those identified for the prior academic year.

The Committee then went on to consider a number of significant risks in more detail.

- Valuation of pension assets and liabilities – auditors confirmed that these will be reviewed as part of all college plans as LGPS is a large liability. They confirmed that, so far as the audit is concerned, it is critical that the assumptions reflect the profile of the college's employees and are based upon the most recent actuarial valuation. It is also important that assumptions are derived on a consistent basis year to year or updated to reflect the college's current position. The Committee asked what benchmark is used in testing the assumptions. KPMG confirmed that there are four main actuaries in the sector and they will collate what their views are. KPMG also have their own actuaries who will be consulted. Whilst discussing

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pensions, it was noted that there is a large increase regarding TPS contributions. This does not appear on the balance sheet but does impact upon cash. The 18/19 position however is supported by a government grant to offset.

- Overall financial position and going concern – auditors confirmed that as at the end of April 2019 the colleges mid-year forecast shows a forecast deficit for the college of £4.675 million for the year ended July 2019. This is £2.98 million better than the initial revised forecast and £276k better than the financial recovery plan due to refined apprenticeship income targets and a higher expectation around the level of AEB attainment. Including BKSB, the group position was a forecast deficit of £3.013 million. Cash flow has improved to the extent that the revolving credit facility was repaid in April. The original facility expired on 31st March 2019 and is being renewed on a month by month basis until the longer term refinancing of the college facility is in place. It is anticipated that the facility will need to be drawn down at various points over the next 12 months to manage the cash position. The college’s financial health assessment remains ‘inadequate’ and is expected to remain so for the rest of the financial year. Nevertheless given the financing in place and available to the college at the time of audit planning work, there have been no issues identified that would suggest that the college would not be able to continue to operate as a going concern.

The interim Finance Director was able to provide an update on discussions with the bank. He confirmed that heads of terms have now been agreed and paperwork is now with solicitors. The anticipation is that the position will be concluded well before the 31st July. All agreed that it was important to avoid any bank uncertainty that would need to be referenced within the accounts. It was confirmed that bank covenants have been agreed this week and therefore the college is able to move forward with a greater degree of certainty.

- Regularity – auditors confirmed their other areas of focus and explained that college corporations are required to publish a statement on regularity, propriety and compliance within the annual accounts.
- Page 13 sets out the four subsidiary companies due to be audited but should any be liquidated/dissolved prior to the 31st July then they will be removed.
- Page 14 sets out anticipated timing for works. In relation to the interim audit scheduled for July 2019 a challenge from the Committee was that they want to see dates agreed as a matter of urgency. The Committee questioned whether October 2019 was an appropriate time for the yearend audit it was explained that this is quite commonplace in the sector and that the college is hoping to move back to this normal timetable this year.

Interim FD

June
2019

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- Page 17 sets out the team that will undertake the audit. It was noted that there has been a change at manager level but that there is continuity at director level.
- Page 18 sets out the proposed fees. These were discussed in detail and a number of matters noted
 - There is an additional fee of £1,500 for the extra audit work required in relation to senior pay – this is a regulatory requirement.
 - There are savings to be made in relation to the subsidiary company audits if they are liquidated. A challenge from the committee was that they considered the increases applied to Vision Apprentices and Vision Workforce Skills to be disproportionate given the lack of activity within these companies.
 - Core fee for the college and subsidiary companies has increased by 5%. A challenge from members of the Committee was that this uplift seemed high given that CPI is 2.7%.

The Committee debated the fees in detail and were satisfied with explanations provided by the interim Finance Director which led them to the view that a 5% increase was necessary, albeit that they agreed that savings could be made once the subsidiary companies have been liquidated.

- Page 21 sets out confirmation of independence

Having debated the proposals in detail the Committee were happy to recommend its approval to the Board.

AGREED:

- a) To note the content of the update provided
- b) Recommend Board approval of the KPMG 18/19 planning memorandum as presented.

7 GOVERNANCE REPORT

The Clerk introduced this item and drew the Committees attention to her written report. It was agreed to defer consideration of the Terms of Reference to the next meeting in September.

Clerk

Sept
2019

As part of their annual self-review the Committee considered membership and makeup and questioned whether there was a view that there were any shortages in relation to technical skills. In terms of membership numbers they agreed that they would wish to see more than 3 members on this Committee. They would wish to move forward to increase to 4 or 5 if possible, with one of the additional members having a financial background. If the Board were able to recruit further, they would wish to see the fifth member have a general management or risk background. The recommendation from the Committee is to increase membership to either 4 or 5. If membership can be increased

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to 5 then quorum should be increased to 3, however, if membership increases to 4 then quorum should remain at 2. The view of the Committee was that members currently have the required skills set but that it would add value to recruit further.

The Committee indicated that they would find it useful to have a better line of sight regarding the colleges business planning cycle in terms of budgeting, curriculum, strategy etc. The Clerk advised that she was pulling together a work plan for the Board and the Committees and would wherever possible try to include key business planning dates. The Committee indicated that it would be useful to add in any regularity dates and deadlines so that the Committees and the Board could identify any conflicts in terms of preparation required.

Clerk

11.07.19

The Committee considered the work plan proposed and agreed that it appeared to cover all of the key areas. They were happy to roll forward with the name of the appropriate report writer amended to reflect employed positions for 19/20.

8 **PROCUREMENT – CONTRACT SAMPLE/AUDIT**

It was agreed to defer discussion on this report to the next meeting. For the benefit of the Principal the Chair explained the context for the report requested. He explained that the sampling of one particular contract is to sit alongside the request made to review procurement strategy and clearly articulate who owns and is responsible for it. He indicated that Governors are seeking assurance regarding the plans and processes and checks and balances in place.

FD

Sept
2019

In relation to the report presented, the Committee asked for greater clarity regarding the evaluation process and the service level criteria used when scoring the tenders. It was confirmed that the ordering of the tenders reflects the pricing and service provision. The Committee asked whether it was possible to cross reference the outcome with a summary table which gives greater clarity. A challenge from the Committee was also to better understand the process for deciding that the contract be awarded on a non-DDA rather than a DDA basis.

The Committee indicated that their request to review procurement in a little more detail was because the internal auditors undertook a review in 17/18 and there were some anomalies identified in the procurement process. As a consequence the Committee needs proper assurance. It is the control processes that do or don't exist that is the nub of the issue to be tested.

AGREED: to note the content of the update provided.

9 **RISK REGISTER 2018/19**

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The interim Finance Director presented this report and drew the Committees attention to a number of movements.

- Line 1 – removal from the RoATP – he indicated that to a certain degree this is a matter now out of the hands of the college and it is not something that is capable of being actively managed. The college’s application was submitted in May and an outcome is awaited. This is still a significant risk and is a risk in the sector because of technical issues that have on some occasions prevented successful reregistration. It was confirmed that this risk is also linked to the Ofsted inspection risk, should it be the case that the college is chosen for Ofsted inspection prior to reregistration being confirmed.
- Line 2 – all agreed that this was an area that they would wish to see fully resolved before the yearend so that there is certainty within the accounts.
- Line 16 – the risk here is that the high needs claim is put at risk by the level of cost cutting at phase 1. The interim Finance Director indicated that the risk probability has now decreased to 3 rather than 4 and that at the next iteration the RAG-rating is likely to be amber rather than red. He confirmed that the college is now more comfortable regarding the position following an independent review undertaken.
- Line 18 – this is a high risk and has not changed
- Line 3 – there is greater confidence now in terms of the LEP working with the college
- Line 4 – the college has now agreed heads of terms with Lloyds Bank and it is anticipated that this risk will be removed from the register shortly.
- Line 7 – in relation to this there are some hard decisions to be made. BKS India is currently not being actively managed. There is a need to develop a stronger business case and plan in relation to its future. A proper strategy needs to be agreed and the Board of Directors are currently reviewing a 3 to 5 year business plan. It is felt that BKS India does present an opportunity but that, as yet, options regarding its future are not articulated well enough.
- Line 17 – there is confidence that the 18/19 budget will now be hit, however risks remain in relation to 19 and 20.
- Lines 5 and 6 and now fully mitigated
- Line 15 could actually be considered as an opportunity
- Line 10 – there are concerns that remain regarding low staff morale. Staff survey was issued on Tuesday and the Principal hopes to be able to provide a verbal update to the Board on 11th July. Survey closes on 4th July. The Clerk was able to advise that there has been a good level of interest in the vacancy for an academic staff Governor, with three

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nominations received to date.

- Line 11 – the college’s reputation does remain a risk, however, student numbers are looking healthy. Small steps are bearing fruit, however, it will take some time to repair.
- Line 9 – the RAG-rating in relation to this has decreased and there is confidence that further strong Governors will be recruited in July.
- Line 12 – this is a risk following the reduction in staff numbers. The executive will reflect on this in the autumn term and the early indicators will be the first 6 weeks.
- Line 13 – this remains a risk but is being monitored, new appointments have been made with handovers agreed. The Principal advised that the college has received 13 applications for the HR Director position. The selection panel has struggled to get the number of individuals to be interviewed down to 5 because they are of such a high calibre. All agreed that these were positive signs.
- Line 19 – remains as a risk although it has reduced.

AGREED: to note the content of the update provided.

10 INTERNAL AUDITOR REPORT

RSM presented an update in a number of areas;

1) Follow-up

She confirmed that as part of the approved internal audit periodic plan for 18/19 RSM have undertaken a review to follow up progress made by the college in implementing the previously agreed management actions. The audits considered as part of this follow up review were;

- Framework for compliance with legal requirements – Health and Safety
- Academic Performance Monitoring Framework
- Follow up 17/18
- Higher Education Framework – selected key controls in respect of competition and markets authority (CMA) and HEI FES and Student Loans Company compliance.

The 22 management actions considered in this review comprise of 11 medium and 11 low. The focus of this review is to provide assurance that all actions previously made have been adequately implemented.

Of the 22 actions identified, she confirmed that:

- 14 (64%) have been implemented
- 7 (32%) are ongoing
- 1 (4%) not implemented

In relation to the Health and Safety matters still outstanding it was explained that most are to do with mandatory training and this will be captured as part of the college wide development week next week.

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In terms of a general comment the members of the Committee asked auditors that in future reports they only report on items not done, so as to make it much easier to focus on matters still outstanding. They felt that the format of the report was unhelpful in terms of it being difficult to easily see what remains an issue.

AGREED: to note the content of the update provided.

2) Framework for compliance with legal requirements – GDPR Governance Framework

RSM confirmed that their review is a follow up on the same four key areas previously audited prior to GDPR coming in to force. Of the 7 actions previously noted they have either been implemented or superseded, however they have been replaced by others. A challenge from the Committee was that there was simply too much detail and they queried why the long lists of bullet points were provided. They commented on the sense of frustration that was apparent in the management comment. A challenge from the Committee, going forward, was that auditors need to be clearer in terms of what the recommendations are and the agreed reasoned action.

In considering the report there were a number of comments:

- Action 1.1 requires that the ROPA be fully populated. It was acknowledged that almost immediately the data will change but that what auditors have recommended here is that at least at one point in time there are no gaps within the data fields.
- In relation to 1.15 there was an acknowledgement that the college will not be able to hit the 31st August deadline, as the unions cannot work to this deadline. It was agreed to move the deadline date to October 2019.
- In relation to 1.13, it was noted that there is a completion date missing; the Committee asked that this be agreed and inserted.

A challenge from the Committee to the auditors was that their reports need to be shorter and clearer going forward.

AGREED: to note the content of the update provided.

11 **PROGRESS REPORT JUNE 2019**

RSM confirmed that there was only one further audit to be undertaken, this is in relation to learner number systems – selected aspects of study programmes. She confirmed that the fieldwork testing has been agreed for 8th July and their report will come to the September meeting. The Committee’s attention was drawn to page 13 of the emerging issues document appended to the update, and it was noted that there have been some February 2019 updates to the Post-16 Audit Code of Practice. RSM confirmed that they would provide the Clerk with a

RSM

July

Signed : _____ Chair

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briefing note so that this could be considered at the September Audit Committee meeting.

2019

AGREED: to note the content of the update provided.

12 **COMPOSITE COLLEGE RECOMMENDATIONS REPORT**

The interim Finance Director presented his detailed report and a number of aspects were considered;

- The outstanding action for 16/17 relates to the Asset Register and it was acknowledged that this was discussed earlier in the meeting. This must be completed by July 2019.
- From the 17/18 recommendations there are currently 4 actions to be implemented of which 2 are medium risk and 2 are low risk.
- When considering the 2018/19 actions it was acknowledged that the college has made good progress in relation to its position with the FE Commissioner and the actions identified. The view expressed was that the table at section 3.2 does not accurately reflect the current position. The Principal confirmed that the table will be re-based once the letter is received following the most recent visit. It was agreed that the actions completed can be removed from the tracker and recorded separately.

As an overview the Committee felt that there was slow progress in a number of areas but did acknowledge that there have been other priorities this year. They indicated that there is a need to now focus and address any outstanding actions.

The Committee reviewed the table provided and it was confirmed that the 'suspension of policy approvals' has now been lifted following the conclusion of the restructure and that staff are working through updating policies and procedures on a priority basis. It was confirmed that all Health and Safety policies will have been reviewed as a priority by the 19th August.

AGREED: to note the content of the update provided.

13 **INTERNAL AUDIT – LEARNER NUMBER SYSTEMS (ASSIGNMENT PLANNING SHEET)**

As requested at the previous meeting a copy of the audit scope document was presented to the Committee for information. They explained that their work will replicate the funding audit approach in relation to

- AEB
- Advanced learner loans
- Study programmes – auditors will again check that there is better evidence regarding the e-hours.

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In terms of the scope of work, auditors will be able to say whether or not the college is compliant, however what they will not do is test the controls. The Committee indicated that they would want to be advised if there are any control concerns that require further investigation.

RSM

July
2019

AGREED: to note the content of the update provided.

14 **REGISTERS, ATTENDANCE AND RECORDING**

The interim Finance Director presented this report and confirmed that it was a follow-up on a report produced earlier in the year, where the issue of prompt completion of registers was discussed. He drew the Committee's attention to section 2.2 of the report and acknowledged that there were still some improvements needed and that the college has a way to go. That being said, it was explained that 106 unmarked registers represent an anomaly related to the time of year. These registers all relate to the last week of term or the previous week where many trips offsite were undertaken and registers completed with a paper register and not yet transferred, or that classes have not taken place due to exams or similar prep. There are instances where registers were not marked as attendance not required. He provided assurance that these columns, and also register sessions marked not up to date, are not a cause for concern.

AGREED: to note the content of the update provided.

15 **EXCEPTIONS REPORT**

The interim Finance Director confirmed that there were no matters that he wished to bring to the Committee's attention.

16 **DATE AND TIME OF NEXT MEETING**

The Clerk confirmed that the next scheduled meeting was Tuesday 17th September 2019.

17 **AOB**

There were no items of additional business.

CONFIDENTIAL ITEMS

It was agreed that confidential items would be recorded separately.

(Auditors left the meeting at 7.07pm)

Meeting closed at 7.25pm.

Signed : _____ Chair

Date: