

**Minutes of the joint meeting of the Audit and Finance, Resources & Estates Committees held on Thursday 13<sup>th</sup> February 2019 at 5.00 pm.**

**GOVERNORS PRESENT:** Paul Frammingham (meeting Chair)  
Martin Rigley  
Neil Shaw  
Kate Truscott  
Tony Westwater  
Martin Sim (joining by conference call)  
Jamie Fryatt  
Neil McDonald  
Rebecca Joyce  
Sardip Sandhu

**ALSO IN ATTENDANCE:** Maxine Bagshaw, Clerk to the Corporation  
John Owen, Interim Finance Director  
Gavin Peak, Director of IT and Estates  
Jane Peacock, ESFA observer  
Alisdair Colston, KPMG

**1 APPOINTMENT OF THE MEETING CHAIR**

Paul Frammingham was nominated as the Chair for this meeting. This nomination was seconded and approved.

AGREED: to appoint Paul Frammingham as the joint meeting Chair.

**2 DECLARATIONS OF INTEREST**

The meeting Chair reminded everyone present to declare any interests that they may have on matters to be discussed. No interests were declared and standing declarations were noted.

**3 WELCOME INTRODUCTIONS & APOLOGIES FOR ABSENCE**

Apologies for absence were received from Lee Radford, Adam Mussert and Jeremy Dunn.

**4 MINUTES OF THE JOINT MEETING OF THE FRE & FR T&FG HELD ON**

ACTION by whom	DATE by when

Signed :  Chair

Date:

## **30<sup>TH</sup> JANUARY 2019**

The Clerk advised that a number of changes had been made to the draft circulated prior to the meeting. These were specifically noted as:

- Page 2 – section 6. The sentence should read ‘he expressed the view that these accounts clearly show that the original budgets set were too optimistic and that it is now better to solely focus on the position against the revised budget, which is consistent with the financial recovery plan’.
- Page 4 – an error was made in relation to the calculation of the yearend forecast. The positive variance should be £1 million rather than £1.4 million. The £1 million being made up of £600k 16-18 and £400k AEB.
- Page 5 – an action to be recorded in the right hand column is for the interim Finance Director to provide a breakdown between the system-generated debt and the actual ‘real’ debt on a monthly basis in the management accounts.

Save for the changes noted, it was agreed that the minutes were an accurate record of the meeting.

AGREED: to approve the minutes of the joint meeting held on 30<sup>th</sup> January 2019.

### **5 ACTION PROGRESS UPDATE**

The Committee reviewed the update provided and, in relation to monitoring of the 3 year financial plan, discussed the scheduling for progress reviews. The interim Finance Director explained that governors are, in effect, monitoring this indirectly at every meeting through information provided in relation to the management accounts and implementation of the financial recovery plan. The group felt that it would be useful to make a progress report/review of the 3 year financial plan a focus at certain meetings in the year, as this would be an opportunity to assess what has changed and whether or not there is any impact upon future years. They felt that it was important to ‘take stock’ periodically and felt that quarterly reviews would be appropriate. It was agreed that the report should include trend analysis with a summary of potential future implications. They would like the report to give assurance but also identify any concerns. It was agreed that these reviews would be undertaken on a quarterly basis with the first report to the March 2019 FRE meeting.

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### **6 2017/18 FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER**

Alisdair Colston from KPMG presented this agenda item and key matters noted were:

- KPMG and staff at College have had to produce this annual report in a very short timetable and therefore staff have had to work very hard to conclude and have the information available

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for the meeting today.

- KPMG anticipate being able to provide an unmodified audit report, however there will be a reference to going concern issues and the material uncertainties surrounding this.
- KPMG believe that the college will remain a going concern for the next 12 months, however there are material uncertainties, the specific wording regarding material uncertainty is currently being finalised. It will however make reference to support needed and continuing from the bank and the ESFA.
- They confirmed that no issues had been identified in relation to the subsidiary companies
- KPMG feel able to sign off the accounts, however there will be additional paragraphs included in relation to
  - a) Brexit, and
  - b) Parent company support for the subsidiaries.

He then drew the Committees attention to page 11 which is the start of the Regularity report. He confirmed that none of the amounts referred to represent a material irregularity.

He then took the Committee through his report on a section by section basis:

- Page 7 sets out the significant risks. There is the belief and expectation that the bank will continue to provide support to the College, however, KPMG have a conference call scheduled with them to confirm this, as to date they have not provided any written confirmation of this position.
- Page 8 provides an update on revenue recognition and it was noted that there is one further adjustment to be made, this will be discussed as part of the next agenda item.
- Page 9 sets out risks associated with management override of controls. The Committee were advised that there has been one instance of management override noted in relation to approval of key management personal expenses, further detail will be provided on this later in the meeting.
- Page 10 sets out the position in relation to pension liabilities.

In general discussion it was noted that, within the accounts, all loans have been accounted for as due within one year because of the covenant breaches. The Committee questioned what is needed to reverse this position. It was explained that, when the covenants are renegotiated and the college is not in breach, the loans will revert back to long term. The interim Finance Director explained that the position will be improved for the 18/19 financial year but not the 17/18 position. The interim Finance Director confirmed that he was in dialogue with the banks and they expect covenants to be renegotiated and therefore he would expect the July 2019 accounts to include reclassification of the loans back to long term. He advised that there has been no indication from the bank that they intend to enforce the breach and his expectation is that by April 2019 the covenants will

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have been renegotiated.

Page 11 sets out more detail in terms of regularity findings. Three particular aspects were brought to the Committees attention, these were:

- Inappropriate Principal expenses, including override of controls – this was mainly in relation to taxis and hotels.
- Late notification to the ESFA of the risks to college liquidity – auditors believe that this notification to the ESFA should have happened much earlier in the 17/18 academic year
- Lack of scrutiny of the college's financial risks by the corporation – in particular there was a lack of scrutiny regarding the college's risk register.

In relation to the Principal's expenses, they suggested that there was not the proper and appropriate segregation of duties. The Committee discussed the points raised and questioned and challenged whether these elements need to be included within the governance section of the Members Report and Financial Statements. All felt that they did need to be referenced on the basis of the college being publically accountable for use of funds and the need to be open and transparent. The Committee all acknowledged that there had been a breakdown of governance in the 17/18 year and that this had to be acknowledged, however, the level of detail in relation to this needs to be debated by the Board. The Committee indicated that, in the Members' Report and Financial Statements (the KPI section), there is no explanation as to why the college did not achieve the KPIs. They felt that more needed to be included to explain what the Board and the management team are now doing about this.

The interim Finance Director expressed the expectation that the 'material uncertainty' paragraph would be removed from the 18/19 accounts, given that greater certainty is now being secured with the banks and external stakeholders.

- Page 13 provides a summary of the review undertaken in relation to subsidiaries. It was noted that there is a further subsidiary, bksb India, however, this is not consolidated into the accounts of the group. He explained that the level of activity undertaken by bksb India is not material so far as the group is concerned. The India costs/expenditure, however, are approaching materiality for bksb as a company. It was confirmed that the materiality limit is £60k and India operations are currently circa £40k.

The Committee's attention was drawn to Appendix 1, which sets out the required communications with the Audit Committee. The only item brought to the Committee's attention was the potential material fraud or irregularity of subcontractors, with a potential material impact on the college. They confirmed that they had found no evidence of actual

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or suspected fraud in college, however, there were ongoing investigations in relation to a subcontractor.

- Page 19 appendix 2 sets out the audit misstatements. The two noted were discussed and assurance was given that they were accounting treatment changes.
- Page 21 sets out the audit recommendations, these include:
  - a) Self-authorisation of purchase orders – auditors recommend that the College review its scheme of delegation and identify instances where this could be manipulated. They also recommend that the expenses policy is updated to be explicit about acceptable use of taxis. They also recommend that the College perform a full review of taxi expenses by the former Principal to identify if any of the expenditure would constitute a taxable benefit and would therefore create a liability for the College. He confirmed that significant testing had been undertaken in this area. The Committee questioned whether the expense policy stipulates who should approve the Principal's expenses. The interim Finance Director confirmed that the provisions are more general and he provided assurance that the policy is currently under review as part of an update to the Financial Regulations. The Principal asked whether auditors had found any other examples of staff self-authorising expenses; they confirmed that it was solely the Principal. The interim Finance Director advised that historically there were two corporate credit cards available, however, these are no longer in use. Historically, as there were only two in place in any event, their use was not widespread.

Following questioning by the Committee, the interim Finance Director explained that expenses are reported and recorded by cost centre, however, it is possible to drill down to expenses claimed by individuals. He confirmed that processes have now been changed and there is no authorisation without the evidence to support the expenditure.

Auditors confirmed that their second recommendation is

- b) that the college reiterate the importance of providing appropriate evidence of expenditure to its staff and that the expenses policy should stipulate the importance of providing detailed receipts to allow appropriate scrutiny of personal expenditure to be reimbursed.

Auditors advised that, throughout their testing of purchase cards, credit cards and taxi invoices, they noted that there were instances where the former Principal's expenses did not comply with the expenses policy. This includes:

- first class rail tickets purchases as opposed to standard class
- hotels rooms purchased near place of work

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- subsistence reclaimed which was in excess of the relevant meal allowance
- taxis between home and place of work
- hotel rooms purchased with expenditure above the allowance per night.

They made the observation that such purchases were approved and paid. It was confirmed that this may create a potential taxable benefit and a liability to the college and that, whilst it is not material, the colleges systems and processes in place did not prevent it from occurring. A question and challenge from the committee was whether or not the College could claw back any tax liability from the former Principal. It was confirmed that this would be considered as an option at the appropriate time.

The Committee agreed that there were a number of actions that they would wish to take following the information provided. These were

- a) a review of expense controls and the expenses policy to be scheduled for Audit Committee discussion at the next meeting
- b) a review of the college's procurement processes; again this to be undertaken by the Audit Committee at their next meeting.

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In relation to the finding that the college was late in notifying the ESFA regarding the risk to solvency and viability, the view of auditors is that the college is currently under close scrutiny from the ESFA and that no immediate action is necessary, however, in future the college should be more open with the ESFA in relation to its financial position in order to ensure it complies with the funding agreement.

There were three further recommendations:

- The College's Board of Governors and Audit Committee should provide greater scrutiny and oversight in respect of risk management processes in line with the FE Commissioner's recommendations. It was confirmed that this is being reviewed by the Audit Committee and is to be scheduled as a priority agenda item. Part and parcel of this will be the choice of a 'risk topic' each meeting so that a deep dive can be undertaken.
- The Financial Regulations should be reiterated to all staff who are empowered to authorise purchase orders. The college should routinely monitor purchase orders and identify repeat offenders and train them in the colleges purchasing processes. Auditors confirmed that what does happen, in many FE and other education organisations, is the retrospective authorisation of a purchase. The Committee questioned whether there were many 'repeat offenders'. The interim Finance Director advised that there were 'the usual suspects'. He provided assurance that the situation has improved, however, instances have not yet been eliminated. One member of the Committee questioned whether it was possible to report on this as a KPI. The interim Finance Director

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undertook to review the College system and see how a report could be generated to monitor any instances of noncompliance/requests for retrospective expenditure authorisation.

- The College performs a reconciliation between the student system and the ledger in respect of tuition fees, however, the reconciliation is not formally reviewed. It was explained that this is a simple requirement to complete a sign off sheet.

The Committee was given assurance that all of the actions identified would be added to the Audit Committee composite rolling tracker. The Audit Committee Chairman was strongly in favour of establishing one tracker document and from that, topics and/or concerns would be identified for deep dives at scheduled meetings.

The Committees attention was then drawn to page 26 and the audit recommendations prior year follow-up. They confirmed that all recommendations are in progress. In relation to line two and the recommendation made regarding subcontractors, it was confirmed that this would be discussed in detail as part of conversations regarding adjustments in the accounts. In relation to LGPS, one member of the committee asked how much control and influence the college actually has given that it is only one employer in a much larger scheme. Auditors confirmed that it was very limited in terms of what the college can do, and that it is more about mapping risks and being aware of the same. It was noted that colleges can individually agree accelerated pension deficit funding if it is financially able to fund this. Colleges do negotiate with funds on an individual basis. The current pension deficit cost to the college is £120k per annum. It was noted that the deficit for the year has reduced by £5 million. KPMG believe that the assumptions utilised are within an acceptable range. A question and challenge from the committee was whether or not the inflation rate was too low. Following debate it was agreed that this was not, as it relates to the enhanced pension rate regarding historic individuals (page 48 of the accounts). The Committee felt that there was benefit in a report on pensions being provided to the Board at its April 2019 meeting.

In relation to purchase orders, the Committee questioned whether the College is confident in terms of the processes securing value for money. They felt that this was critically important and challenged the senior team to ensure that this is clearly articulated and stipulated as a requirement within the Financial Regulations.

In concluding their presentation, KPMG drew members' attention to pages 30 and 31 which sets out their view and assurance regarding independence.

Having considered all of the matters discussed in the meeting, the Committee:

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- Page 14 – in terms of the KPIs, they felt that there was a lack of balance in that the only narrative provided under the table related to the positive and not the negatives.
- The committee questioned whether the college has a formal Public Benefits Statement, the Clerk believed that it did but could not recall how recently it had been refreshed and updated.
- They felt that the key performance indicators, and a review of the same, was a good vehicle for assessing the strategic direction and the college's plans going forward.
- Page 16 – the suggestion was made that, throughout the document, there needed to be consistent narrative regarding the colleges ability to confirm it as a going concern, reference was made to pages 16, 22, 9 etc. It was acknowledged that finalisation of the phrasing regarding going concern has to be concluded as late as possible to give sufficient time to collate the assurances in relation to this.
- The Committee felt that there needed to be a note and narrative in the numbers section of the accounts to more clearly articulate the post balance sheet events.

The Committee considered page 16 in detail and in relation to paragraph 2 they felt that there needed to be a continuation to explain how the college will remain a going concern, they did not feel that it was appropriate to simply stop at 28<sup>th</sup> February 2019, this being three days after the intended signature of the accounts. They felt that something similar needed to be included in relation to ESFA support continuing and that this ought to specifically be referenced. They felt that a missing element was a reference to additional security being required by the banks and ESFA in relation to bksb. A question and challenge from the Committee was how to deal with the ongoing subcontractor investigation in terms of post balance sheet events.

Generally, a challenge from the Committee was to include a summary of positive actions taken wherever possible.

In reviewing the phrasing regarding apprenticeship provision they did not feel that it was balanced.

- Page 17 – they requested that a paragraph be included acknowledging the corporate failure and the changes that have been made to respond to the situation and recommendations made externally.
- Page 26 – the position regarding material uncertainty was flagged. The interim Finance Director confirmed that the bank is aware of the intended inclusion of this paragraph and has indicated that it does not cause undue concern.
- Page 30 – the line heading 'pension adjustments charge to expenditure' – the Committee questioned whether a reference to this can be tied in to the notes to better explain the

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position.

- Page 41 – the Committee discussed ‘other income generating activities’ and asked that there be a further description in relation to this. It was explained that it is mostly bksb and that the Gift Aid from bksb is included within College income. The Committee felt that there needed to be greater transparency regarding college turnover versus Gift Aid.
- Page 44 – it was explained that the teaching cost line includes subcontractor costs and therefore the reduction from 2017 to 2018 reflects the reduction in the use of subcontractors. The Committee asked that there be a note included to explain this.
- Page 55 – the Committee asked for greater detail regarding the Inspire and Achieve foundation. Auditors confirmed that it is not part of the college group, however, reference has been made to it as the former Principal is a Trustee and, because the college has a contract with the foundation this needs to be declared. The Committee felt that greater assurance needed to be obtained regarding the engagement processes, contract, quality assurance etc. Auditors did confirm that this is very much an arm’s length transaction; the Committee, however, felt that a short report ought to be provided on this. The audit Committee Chairman provided assurance that this had been discussed by the Committee last week and that they were satisfied with the explanation provided regarding the College’s treatment of this contract and the value of this organisation as a subcontractor.

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One member of the Committee questioned where contingent liabilities appear within the accounts. The interim Finance Director advised that it is page 49, note 22 and that this is one area that will be updated in the next version.

In concluding the discussions the Committee reiterated the need for balance. All agreed that it was important to celebrate the positives but also acknowledge the deficiencies and weaknesses to address. It was confirmed that a note of the committees’ observations and requested changes would be made and incorporated within the next version of the document which would go to Board for further consideration and approval on 25<sup>th</sup> February 2019.

AGREED: subject to the changes discussed at the meeting today, to recommend that the Board approve the 2017/18 Members’ Report and Financial Statements.

Signed : \_\_\_\_\_ Chair

Date:

**LETTER OF REPRESENTATION 2017/18**

The Committee considered the draft letter and noted that, whilst the Chair signs the letter, his signature is on behalf of the Board. A number of specific points were noted:

- Page 3 section 8 - this should say 'college' and not 'university'
- Section 14 this is the stated position as at the point of signing
- Confirmation and assurances made by the accounting officer – it was acknowledged that Martin Sim is the current accounting officer and can say what the position is since his appointment, however he is not in a position to provide confirmation and assurance regarding his predecessors actions. The Committee asked KPMG to look at the wording so as to split out the timing, as they did not think it appropriate for Martin Sim to provide compliance assurances regarding his predecessor given the known issues at the college.
- The Committee questioned whether or not the Board could provide assurance regarding 'Financial Memorandum compliance', particularly the issue identified by KPMG that the College had failed to notify the ESFA as required in terms of liquidity risks. The Committee discussed the use of the word 'material' but still felt that there may need to be a reference to exceptions i.e. the late notification to the ESFA regarding liquidity. They asked that KPMG reconsider the wording in this paragraph.
- In the last bullet point there was a reference to 'transfer pricing documentation', the Committee asked that the interim Finance Director establish that this paperwork does exist before the Board are asked to confirm the same.

In terms of the HE Centre, targets linked to capital investment, they asked whether there was any potential clawback as the College is not currently hitting the KPIs. It was acknowledged that the contract period still has a number of years to run and therefore there is the possibility that the college could significantly improve its position, with the right strategy, and therefore clawback at this stage is a small risk and unquantifiable.

The Committee asked for further work to be undertaken by KPMG and the interim Finance Director to produce a much more factually accurate letter of representation given the change in governance arrangements and position of chief accounting officer.

**LETTERS OF SUPPORT 2017/18**

The Committee considered the draft letters proposed and asked that staff ensure that correct letter heading is used as the draft documents presented still made reference to Dame Asha. They asked that the date be changed to 25<sup>th</sup> February.

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In terms of a general update the interim Finance Director confirmed that the subsidiary companies requiring these letters of support were not actively trading, and that the College was in the process of closing them down. The intention is that any non-trading subsidiaries will be dissolved by 31<sup>st</sup> July 2019. It was noted that bksb and VBSS will continue to operate, although the interim Finance Director believes that a review of VBSS needs to be undertaken in the next 12 months, this being an opportunity for the new Principal and new Finance Director to make recommendations to the Board.

AGREED Subject to the minor changes noted, the Committee were happy to recommend the letters of support proposed for subsidiary companies.

**10**      **AOB**

There were two matters of additional business, the first being a request for a fully marked up copy of the 2017/18 Members' Report and Financial Statements. Governors indicated that they would like to clearly see tracked changes to ensure that all points requested have been picked up.

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A second matter considered was the planning and preparation of the 18/19 accounts. They indicated that they would wish to see governors involved at a number of touch points during preparation of the accounts, rather than waiting until a final meeting very close to the point of requiring signature.

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**11**      **DATE AND TIME OF NEXT MEETING**

The Clerk confirmed that the next scheduled Finance, Resources and Estates Committee meeting was 28<sup>th</sup> March 2019.

Meeting closed at 7.05pm.

Signed : \_\_\_\_\_ Chair

Date:



