

Minutes of the meeting of the Audit Committee held on **17 June 2019**.

**Present:** Liz Stanley (Chair), Cllr Ken Richardson, Seb Schmoller and Ann Corrigan.

**In attendance:** The Principal, the Head of Finance, Rob Winter - Barnsley MBC Internal Audit Services, Mike Redfearn (Grant Thornton) Mark Lockwood (Grant Thornton) and the Clerk to the Governors.

**Apologies:** Glen Sheppard.

**A19/30**     **MEMBERSHIP MATTERS**

It was reported that Glen Shepard had resigned from his role as an independent member of the committee. The chair formally thanked Glen for his longstanding contribution.

**A19/31**     **DECLARATIONS OF INTEREST**

Cllr Ken Richardson declared his role as chair of the BMBC Audit Committee which was also served by Barnsley MBC Internal Audit Services, and Seb Schmoller declared his role as chair of the Board of Governors at Sheffield College. The committee agreed that these positions did not raise any issues regarding conflict of interest in relation to any matters to be considered at the meeting.

**A19/32**     **MINUTES OF THE LAST MEETING**

The minutes of the meeting held on 25 February 2019 were approved as an accurate record (a copy is filed in the minute book).

**A19/33**     **MATTERS ARISING FROM THE MINUTES**

A19/22     It was noted that the committee's proposal regarding oversight of health and safety had been approved by the Board of Governors at its meeting in March 2019.

A19/28     It was noted that the Board of Governors had considered the potential for rotating the FSA audit partner to maintain independence, but had agreed that as this was not a specific requirement at this stage and the College benefited from the level of the partner's experience this should not be pursued at this time.

**A19/34**     **INTERNAL AUDIT SERVICE REPORT**

**(A copy of document 4i is filed in the minute book)**

The committee considered a report from the internal auditors which presented an update on progress, any changes since the last meeting and reports from audits completed during the period. It was noted that:

- work would commence on the MI system project management audit in July 2019;
- the independent review of the College's risk register was on hold, a session with the Board of Governors would be scheduled for the Autumn term;
- further discussion would be arranged to explore how internal audit could assist the College with its responsibilities regarding assurances of compliance with the Data Protection Act 2018 and GDPR;
- two audit reports had been completed since the last meeting;
- the internal auditors reported that they received excellent co-operation from College staff, with no blockages or hindrance.

**A19/35**     The committee considered the **Internal Audit Report – Performance Management**. It was noted that:

- The scope of the audit had been to provide assurance that there were appropriate arrangements in place to manage employees' performance, with any performance issues

identified and appropriate actions taken in a timely, consistent and equitable manner if required;

- Sample testing had confirmed that, in the main, there were appropriate and effective controls in operation over the performance management system;
- one significant recommendation was raised relating to finalising the capability policy;
- two merits attention recommendations were raised relating to addressing the findings from the quality assurance performance management audit completed by the College and ensuring objectives set by managers include timeframes, are SMART and include stretch targets;
- an **adequate** assurance opinion was given.

**A19/36** The committee considered the **Internal Audit Report – Follow-up**. It was noted that:

- the objective of the audit was to provide assurance that the College had appropriately implemented the internal audit recommendations made and due for implementation in the 2018/19 academic year to date, 2017/18 academic year and also those earlier recommendations reported as being outstanding in the 2017/18 audit recommendations follow-up report;
- the review confirmed that the College was continuing to make **good progress** with regards to implementing appropriate actions to address internal audit recommendations.

**A19/37** The committee:

- explored the process for triggering a performance management/capability intervention, noting that whilst a formal prescriptive process was not outlined, line management training, including performance management skills was planned for all relevant staff;
- explored whether the audit scope had included measuring the impact of performance management in relation to quality improvement, noting that whilst this had not been in scope the recent health check had raised some related areas for development which would be addressed in the action plan, for example linking appraisals and personal development plans for teachers;
- sought and received assurance that the capability policy was on track to be approved;
- were assured by the report that the new MIS manager was now in post and that the restructure of the finance team was in progress.

**Resolved: i That the report be noted.**

**A19/38** **AUDIT RECOMMENDATIONS STATUS REPORT**  
(A copy of document 5i is filed in the minute book)

The committee considered the regular report which outlined the status of previous audit recommendations and enabled it to ensure that they were appropriately implemented in a timely manner.

**A19/39** The committee noted that there were three outstanding recommendations relating to IT Systems, Learner Numbers and payroll. It was reported that:

- the IT security policy was drafted and it was anticipated that it would be presented to the Policy and Finance Committee for consideration in September 2019;
- the new MIS manager had commenced work on rationalising and centralising processes;
- the restructure of the finance team was on track to enable the completion of the recommendation by Summer 2019.

**A19/40** The committee agreed that overall appropriate progress was being made with the implementation of recommendations and welcomed the development reported.

**Resolved: i That the report be noted.**

**A19/41** **FINANCIAL STATEMENT AUDITORS – AUDIT PLAN 2018/19****(A copy of document 6i is filed in the minute book)**

The financial statements auditor presented the **Audit Plan for the year ending 31 July 2019**. It was noted that the audit was risk based, the work of the audit team would be based around the key areas of significant risk, and that the key and reasonable risks for the College had not changed since the previous year and were as follows:

## Key

- revenue cycle includes fraudulent transactions;
- management override of controls;

## Reasonable

- grant income is accounted for inappropriately (occurrence);
- employee remuneration is understated (completeness);
- creditors/operating expenses are understated (completeness);
- pension scheme assets and liabilities may be misstated.

**A19/42** It was noted that testing of key risks was compulsory for all audits and had not arisen as a result of risks specific to the College. The auditor explored with the committee whether there were any other areas they wished them to explore; no additional areas were identified.

**A19/43** The committee particularly explored the risk that pension scheme assets and liabilities may be misstated. It was reported that there were two significant risks relating to the estimation/valuation of the assets and liabilities of the schemes:

- on-going uncertainty regarding how the result of the court case regarding the equalisation of guaranteed minimum pension (GMP) benefits in the LGPS scheme should be provided for in the College accounts;
- impact of the USS scheme revaluation, leading to increased employer contributions.

**A19/44** The committee explored the potential impact of the LGPS position, noting that:

- there was no uncertainty regarding the requirement for a provision to be made, but there was no consensus at this stage on how it should be done;
- the likely impact for the College would be the requirement for a provision to be made in the income and expenditure account, leading to a deficit being reported;
- as is customary the level of the provision for LGPS for 2018/19 would not be known until Autumn 2019, at which point the Board of Governors would be able to assess the impact on the financial statements.

**A19/45** The committee explored the potential impact of the USS position, noting that:

- the College's involvement with USS was unusual in the FE sector;
- a significant increase in employer contribution (rising from 18% to 24.9%) had already been agreed and the cash impact of this in 2018/19 and 2019/20 (£77K) had already been reflected in the financial plan;
- over the next 19 years there was likely to be a significant change which would directly affect the College's balance sheet and income and expenditure account;
- the university sector believed the valuation to be incorrect and a review process was being undertaken, but this was unlikely to be complete by July 2019, meaning the liability for 2018/19 was very unlikely to change, however future years could see a contribution reduction;
- the position could potentially impact on the College in terms of going concern;
- the auditors had not identified going concern as an issue for the College in its audit plan at this stage, but would continue to review the position;
- the Board of Governors needed take into account its status as a limited company in its consideration of going concern, with particular reference to the company insolvency act.

- A19/46** The committee:
- agreed that the position should be clearly outlined for the Board of Governors at its meeting in July 2019, and that the Board undertake an evaluation of the risks and potential mitigating actions;
  - agreed that the risk register should be reviewed to ensure that the nature of the risk (both short and medium term) and the mitigating actions and controls in place are accurately reflected;
  - that the position should be closely monitored by the Board of Governors on an on-going basis in relation to going concern.

**A19/47** It was reported that the FE sector more broadly had been impacted by an increase in costs associated with the Teachers' Pension Scheme, but this had been underwritten for one year by the Government. It was noted that on behalf of the College, in conjunction with Ruskin College, HOLEX had requested a similar underwriting with regards to USS. It was felt however that this was very unlikely to be successful.

**A19/48** The audit fee for 2018/19 was £13,600 (£13,300 in 2017/18).

- Resolved:**
- i **That the position regarding pensions costs be clearly outlined for the Board of Governors at its meeting in July 2019, and that the Board undertake an evaluation of the risks and potential mitigating actions.**
  - ii **That the risk register be reviewed to ensure that the nature of the risk relating to pensions costs (both short and medium term) and the mitigating actions and controls in place are accurately reflected.**
  - iii **That the position in relation to going concern be closely monitored by the Board of Governors on an on-going basis.**

**A19/49** **RISK MANAGEMENT - RISK REGISTER (FULL) AND ANNUAL REPORT/APPROACH REVIEW**  
**(A copy of document 7i is filed in the minute book)**

The committee considered the **full risk register** noting that F7 - failure to manage going concern issues relating to the effects of defined pension deficits on the balance sheet - would be updated in line with earlier discussions. It was reported that C4 would be reviewed in light of the conclusion of the transfer of management of the gardens to the National Trust.

**A19/50** The committee noted that the annual approach review and review of the risk policy had been deferred in light of the planned review by the Board of Governors, facilitated by the internal audit service. It was confirmed that it was the intention that this would include a review of the content and format of the risk register.

- Resolved:**
- i **That the report be noted.**

**A19/51** **ORDER OF BUSINESS 2019/20**  
**(A copy of document 8i is filed in the minute book)**

The committee considered the proposed order of business for 2019/20, noting that it had been updated to reflect the committee's health and safety oversight role and standing item regarding strategy oversight. The committee agreed to include presentations regarding the College's MI systems (February 2020) and ethical framework (June 2020).

- Resolved:**
- i **That with the inclusion of presentations regarding MI systems and College's ethical framework the order of business for 2019/20 be approved.**

**A19/52** **POLICIES FOR APPROVAL****(A copy of document 9i is filed in the minute book)**

The committee considered the revised **anti-bribery policy**. It was agreed that 7.4.1 required clarification.

**A19/53** The committee considered and approved the revised **fraud response plan**, noting that the updated plan took into account any relevant guidance/requirements outlined in the Post 16 Audit Code of Practice.

**A19/54** The committee considered the revised **health and safety policy** and agreed that it required amending to:

- clearly state the responsibilities of the Board of Governors in relation to the policy;
- better reflect health and safety cover 'after hours' and the residential nature of the College;
- clarify who the policy is aimed at e.g. staff, contractors, students, and update accordingly;
- include information regarding health and safety in relation to the gardens and public visitors;
- clarify fire safety procedures e.g. periodic testing;
- further clarify the term serious or imminent danger.

**A19/55** The committee also requested that when the revised health and safety policy is presented to the Board of Governors for approval the cover paper include:

- a statement regarding periodic review of the policy by the internal audit service;
- details of the equivalent policy(s) for students;
- the consultation and approval process prior to consideration by the committee;
- details of any external involvement in its development;
- details of how the new policy will be disseminated to staff and how the College ensures individuals are appropriately trained;
- and the draft policy include track changes.

**A19/56** It was noted that a more detailed review of the health and safety policy was scheduled to take place during 2019/20.

**A19/57** The committee considered and recommended to the Board of Governors for approval a redrafted **Data Protection Policy**.

- Resolved:**
- i That following clarification of 7.4.1 the anti-bribery policy be approved.**
  - ii That the fraud response plan be approved.**
  - iii That with the changes outlined at A19/54 and A19/55 the health and safety policy be recommended to the Board of Governors for approval.**
  - iv That the Data Protection Policy be recommended to the Board of Governors for approval.**

**A19/58** **POST 16 AUDIT CODE OF PRACTICE****(A copy of document 10i is filed in the confidential minute book)**

The committee received and noted the updated Post 16 Audit Code of Practice published in February 2019.

- Resolved:**
- i That the Post 16 Audit Code of Practice 2018/19 be noted.**

**A19/59** **DATA BREACH ANNUAL REPORT****(A copy of document 11i is filed in the confidential minute book)**

The committee received the annual data breach report, noting that two minor breaches, resulting from human error were reported. The committee was satisfied that appropriate action had been taken in both cases and the College data breach system was suitable.

**Resolved: i That the report be noted.**

**A19/60 CONTROLS, GOVERNANCE AND RISK – COLLEGE STRATEGIC PLANS**

The committee received a verbal update regarding the College's strategic planning and monitoring processes. It was reported that a planning session with the Board of Governors and newly appointed executive leadership team was scheduled for November 2019, and that this would feed into the development of refreshed strategic objectives and performance indicators.

**Resolved: i That the report be noted.**

**A19/61 DATE AND TIME OF THE NEXT MEETING**

The date of the next meeting is **Monday 11 November 2019 at 11.30am.**

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| <b>Signed</b>   |                          |
| <b>Position</b> | Chair of Audit Committee |
| <b>Date</b>     |                          |