

Minutes of the meeting of the Audit Committee held on **16 November 2020**.

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

In attendance: The Principal (Yultan Mellor) (from A20/58 onwards), the Assistant Principal – Finance and Business Services (Joy Whistlecraft) (from A20/58 onwards), Rob Winter - Barnsley MBC Internal Audit Services, Pam Radley - Barnsley MBC Internal Audit Services, Mike Redfern – Grant Thornton and the Clerk to the Governors (Sarah Johnson).

Apologies: None.

A20/54 **CLOSED SESSION WITH THE AUDITORS**

The committee met in closed session with the financial statements and internal auditors.

A20/55 The financial statements auditors reported that:

- they had no issues to raise;
- co-operation and collaboration had been good;
- the management of the College was forward looking, including in relation to effectively managing/challenging the ESFA audit.

A20/56 The internal audit service reported that:

- they had no issues to raise;
- co-operation and collaboration had been good;
- timescales had been met.

A20/57 The committee:

- sought and received assurance that the auditors received a constructive response from management in relation to feedback;
- were assured that the auditors did not envisage any issues arising as a result of the significant restructuring activity that had taken place in year;
- agreed that the risk register was a key vehicle for identifying any emerging issues.

A20/58 **DECLARATIONS OF INTEREST**

Cllr Ken Richardson declared his role as a member of BMBC Audit Committee which was also served by Barnsley MBC Internal Audit Services. The committee agreed that this position did not raise any issues regarding conflict of interest in relation to any matters to be considered at the meeting.

A20/59 **MINUTES OF THE LAST MEETING**

The minutes of the meeting held on 15 June 2020 were approved as an accurate record (a copy is filed in the minute book).

A20/60 **MATTERS ARISING FROM THE LAST MEETING**

A20/42 It was reported that a summary of the additional work required by Grant Thornton in 2019/20 resulting in the increased fee had been provided and reviewed by the chair of the committee.

A20/52 It was reported that an appropriate fee had been negotiated with Barnsley MBC Internal Audit Services and their reappointment as the College's internal audit service provider for 2020/21 had been approved by the Board of Governors.

A20/61 **INTERNAL AUDIT SERVICE REPORT** (Document 2i)

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

A20/62 The committee considered the report from the financial regulations and procurement audit and noted that:

- the purpose of the audit was to:
 - provide independent and objective assurance that the College's local procurement arrangements are robust, efficient and effective;
 - provide assurance that procurement processes were undertaken on a fair, open and transparent basis, comply with regulatory, policy and procedural requirements, and that all actions and decisions were fully evidenced;
 - review the College's financial regulations;
- the conclusions were that:
 - whilst the financial regulations required reviewing benchmarking confirmed that the controls in place were in line with other educational institutions;
 - procurement policies and procedures required a comprehensive review and update;
- one fundamental recommendation was made relating to improving practice and mitigating future risks in relation to procurement;
- one merits attention recommendation was made relating to reviewing the financial regulations.

A20/63 The committee sought and received assurance that the fundamental recommendation was being appropriately addressed.

A20/64 The committee considered the **Internal Audit Annual Report and Opinion 2019/20**. It was noted that:

- the report provided the Head of Internal Audit's annual opinion on the adequacy and effectiveness of Northern College's internal control arrangements based on the work of internal audit during 2019/20;
- internal audit coverage did not guarantee to detect all errors, systems or control weaknesses or indeed identify all of the opportunities for improvements in management arrangements that might exist;
- based upon the agreed annual programme of risk based audit coverage and management's implementation of recommendations an adequate (positive) assurance was provided;
- although the plan was limited, the work undertaken had been broad ranging in nature and therefore had enabled the auditor to gain a general opinion of control arrangements across the organisation.

A20/65 The committee noted the effective co-operation with the financial statements auditors and the reported positive response to recommendations by management.

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

A20/66 **AUDIT RECOMMENDATIONS STATUS REPORT** (Document 2ii)

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.

A20/67 The committee noted that there were eight outstanding recommendations relating to IT procedures, payroll and cash and banking. It was reported that:

- it had not been possible to complete any of the outstanding recommendations since the last meeting but it was anticipated that all would be complete by the meeting in February 2021;

- an appointment had been made to the longstanding payroll position and an ICT consultant had been identified to develop and take forward a strategy and longer term staffing structure for ICT and MIS;
- the ICT consultant role included oversight of the College's cyber security arrangements.

A20/68 The committee agreed that overall appropriate progress was being made with the implementation of recommendations and welcomed the further development expected by the next meeting.

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

A20/69 **ESFA AUDIT**

The committee received a verbal update regarding the ESFA audit since the last meeting, noting that:

- the audit was still on-going and it was clear that the ESFA would not now meet their indicated completion date of mid-October;
- the College had provided the requested data by the deadline of 16 October 2020 and was working to meet a request for further data/evidence by 20 November 2020;
- the audit had implications in relation to the audit of the College's financial statements for 2019/20.

A20/70 The financial statement auditor indicated that:

- the ESFA were behind schedule with all their audit work;
- it was likely that audit certificates for a number of Colleges would be delayed beyond the end of January 2021 deadline;
- the College needed to keep the ESFA financial accounting team informed, who would need to agree a delayed sign off of the financial statements.

Resolved: **i That the College keep the ESFA financial accounting team informed regarding the likely delay to the signing of the College's financial statements for 2019/20.**

A20/71 **STUDENT UNION ACCOUNTS 2019/20** (Document 3iv)

The committee considered and approved the student union accounts for 2019/20.

Resolved: **i That the student union accounts for 2019/20 be approved.**

A20/72 **INTERNAL AUDIT SERVICE ANNUAL PLAN 2020/21** (Document 4i)

The committee considered the proposed draft **Internal Audit Plan for 2020/21** and noted that:

- the plan had been developed as a result of a risk based exercise used to identify concerns and potential risk areas;
- in developing the plan risk intelligence was gathered including reviewing key documentation provided by the College, interviewing members of the College's management team and the Audit Committee chair;
- in addition to the above a cyclical approach was adopted for financial systems audits;
- the plan was flexible and would be reviewed and re-assessed throughout the year as new risks emerge and control environments change;
- the plan included days and items carried forward from 2019/20;
- the breadth and depth proposed would be sufficient to ensure an opinion could be provided;
- key areas of coverage for 2020/21 would include information governance, risk, journals, follow-up, income collection and credit control, external funding and marketing, preparation for devolution and business continuity planning;
- indicative plans for 2020/21 and 2021/22 were also included.

A20/73 The committee:

- explored the proposed use of days noting that whilst the plan indicated 14/15 days this would be flexed and prioritised in order to meet the 10-day contract;

- explored in detail any assurance requirements arising from the structural and operational changes that had been implemented at the College during the year as a result of funding changes and how assurance was being sought that they were effective and risks managed;
- Noted the Need for further specialist audit input in relation to the ESFA audit and considered how the College could assess any lessons learnt as a result of the audit once completed.

- Resolved:**
- i That the College assess any lessons learnt as a result of the ESFA audit once completed.**
 - ii That the internal audit plan for 2020/21 be recommended to the Board of governors for approval.**

A20/74 **RISK MANAGEMENT** (Document 4i)

The committee considered an update regarding the review and redevelopment of the College's approach to risk management, noting that:

- the proposed new approach split the register into two sections;
- section one outlined in detail the significant actual risks which had materialised and were currently being actively managed by the College;
- section two would outline more broadly potential risk areas faced by the College, their current status and how they were being mitigated, along with a judgement regarding the likelihood of them materialising into a significant active risk – at which point the risk would be transferred to section one;
- it was envisaged that the approach would enable staff and governors to focus on the key actual risks, whilst also being able to see an overview of the full spectrum of potential risk areas and any emerging concerns.

A20/75 The committee:

- supported the proposed new approach;
- stressed the significance of the effective population and management of section two;
- agreed that the register was a working document which reflected the risk areas considered by both management and governors;
- explored how the Board could be involved in the development of section two and agreed that management should submit a draft to the Board for consideration with a more detailed discussion being held by the Board at an appropriate point.

A20/76 The committee considered section one of the risk register, noted the risks outlined and agreed that they represented the issues being managed by the College.

- Resolved:**
- i That the proposed revised approach to risk management be recommended to the Board.**
 - ii That a development session with the Board regarding section two be convened at an appropriate time.**

A20/77 **ANNUAL AUDIT COMMITTEE REPORT TO THE BOARD 2019/20** (Document 5i)

The committee considered the draft **Annual Audit Committee Report to the Board for 2019/20** and noted that:

- the report provided the committee's opinion to the Board of Governors and accountable officer 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 of the institution and the safeguarding of its assets;
- Section A and paras 5.10, 5.11, 6.11, 6.16 and 10.1 would be updated following the consideration of the matters by the Audit Committee at the meeting.

A20/78 The committee considered how the position in relation to the ESFA audit should be reflected in the report and agreed that section A be updated to recognise that the opinion reflected the position as

at the time of writing (16 November 2020), and any changes arising as a result of the ESFA funding audit would be dealt with in the form of an addendum to the report.

A20/79 The committee agreed that on that basis and based on the work undertaken by the committee during the year it was the Audit Committee's opinion that the Board of Governors could be satisfied with 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, and that there were no significant issues or matters of internal control raised during the period.

A20/80 The committee considered **Appendix E – Regularity Audit Self-Assessment** – and agreed that no significant issues had been raised and it should be recommended to the Board of Governors for signing.

- Resolved:**
- i That the Annual Audit Committee Report to the Board be agreed for submission to the Board of Governors.**
 - ii That an addendum to the Annual Audit Committee Report to the Board for 2019/20 be produced as required in relation to the outcome of the ESFA audit and submitted to the Board of Governors prior to its signing of the financial statements for 2019/20.**

A20/81 **COMMITTEE SELF-ASSESSMENT** (Document 5i)

The committee considered its own performance in relation to the Audit Committee self-assessment and key performance indicators, and noted that all the indicators had been met.

A20/82 The committee considered and agreed proposed indicators for 2020/21.

A20/83 The committee considered its terms of reference and agreed that no changes were required.

- Resolved:**
- i That the KPIs for the Audit Committee for 2020/21 be agreed.**

A20/84 **FINANCIAL STATEMENTS AUDIT – AUDIT** (Document 4i)

The financial statements auditor outlined the position regarding the audit of the College's financial statements for 2019/20, stating that:

- the field work for the financial statements audit had been carried out in line with the original timetable, however they had been unable to complete their audit at this stage, the key factor being in relation to their going concern assessment as they were waiting to 'consider the results of the ESFA audit into the residential offering and the impact on the College's finances';
- both reports were therefore in draft form, as usual at this stage, but were further impacted by the on-going ESFA audit of residential funding for the years 2018/19 and 2019/20;
- this meant that it was unlikely that the College would be in a position to present financial statements with a finalised audit opinion for 2019/20 to the Board for consideration at its meeting in December 2020;
- other than this issue the audit had gone well;
- a letter of representation had not been provided at this stage.

A20/85 The financial statements auditor outlined the position regarding pension assumptions, stating that:

- they had tested and were comfortable with the assumptions used by the College, which although the auditors had been unable to undertake benchmarking at this stage they were confident that the College would be at the prudent end of the spectrum;
- though the College's provision for the USS had reduced it was clear that the liability would go back to the prior level and perhaps beyond in the next 12-18 months so the College's contributions and liability were likely increase.

A20/86

The committee:

- considered the significant and other findings reported noting that overall no issues had been identified, the auditors had asked the College to separate out intangible assets but this was a best practice requirement and not a control issue;
- considered the regularity findings reported noting that no findings had been identified from the work conducted and an unqualified regularity opinion would be issued;
- explored the increase in accruals and deferred income in note 16 of the financial statements and was assured that this related to restructuring costs;
- noted that reference to the ESFA audit had been included in the risk related to fraudulent transactions for procedural reasons but this did not suggest in any way that the College was being investigated for fraud;
- agreed to receive the financial statements and audit findings for information at this stage, noting that a further meeting to consider the finalised reports would be required at an appropriate point.

A20/87

The committee considered the impact of the FRS102 noting that:

- as a result of pension liabilities the College was reporting a £1.7M deficit position;
- as in previous years whilst this did not pose a significant short term risk for the College as the issues were largely as a result of accounting adjustments and did not reflect the College's operating financial position, it did require careful consideration by the Board in relation to going-concern, particularly in light of a potential worsening of the position arising as a result of possible ESFA clawback;
- as repeatedly shown FRS102 calculations were subject to significant variation year on year and triennial valuations had remained reasonably static over a longer period;
- however, this represented an unprecedented level of deficit for the College and should be a key discussion point for the Board of Governors at its meeting in December 2020 where independent insolvency advice was strongly advised.

- Resolved:**
- i That the financial statements and audit findings be received for information and a further meeting be held to consider the finalised reports at an appropriate point.**
 - ii That the deficit position caused by the College's pension deficit be a key discussion point for the Board of Governors at its meeting in December 2020, with independent insolvency advice strongly advised.**

A20/88

COMPLIANCE ANNUAL REPORTS (Document 5iii)

The committee considered the **data protection annual report 2019/20** noting that this would be submitted for consideration by the Board of Governors at its meeting in December 2020. It was reported that:

- overall an adequate state of compliance was believed to be in place, although risk areas remained and there were several areas of on-going work.
- the impact of the COVID-19 pandemic has been a significant feature of 2019/20, and whilst this had undoubtedly increased the risks relating to cyber security and data protection, no increase had been seen in data breaches or issues/concerns raised by data subjects.
- a data protection compliance framework had been developed and a limited amount of work had been undertaken, this would be developed further in 2020/21.
- compliance testing in relation to IT security had been limited and it was hoped that work on the development and implementation of a new ICT strategy in 2020/21 would significantly strengthen the understanding of, testing and further development of the College's IT security arrangements.

A20/89

The committee considered the **health and safety annual report for 2019/20** noting that this would be submitted for consideration by the Board of Governors at its meeting in December 2020. It was noted that:

- the report provided a comprehensive summary of health and safety management, systems and activities through the year, including the extensive work undertaken in response to COVID 19;
- details of risk assessments and recommendations were outlined and no significant/outstanding issues were identified.

A20/90 The committee particularly considered the data in relation to accidents, RIDDOR and insurance claims and were assured that there were no key issues to draw to the attention of the Board.

A20/91 The committee was satisfied that compliance work in these two areas was satisfactory.

Resolved: **i That the data protection and health and safety annual reports for 2019/20 be recommended to the Board of Governors for consideration.**

A20/92 **FINANCIAL REGULATIONS** (Document 5iv)

The committee considered the revised financial regulations noting that the key changes proposed were as follows:

- updating of terminology and job titles;
- amendment of responsibilities in line with the new staffing structure;
- inclusion of reference to ESFA subcontracting rules in the off-site collaborative provision (subcontracting) section;
- updating of the EU Public Contracts Regulations OJEU thresholds;
- updating of the security para to include reference to cyber security and updated data protection legislation.

A20/93 The committee considered the potential implications of BREXIT from the 1 January 2021 in relation to EU procurement rules and noted that they would be further reviewed as required.

Resolved: **i That the financial regulations be recommended to the Board of Governors for approval.**

ii That the financial regulations be reviewed in relation to EU procurement rules following BREXIT clarification.

A20/94 **AUDIT CODE OF PRACTICE**

The committee considered the revised ACOP and any implications for the College, noting that:

- the revised version was relevant to all financial periods commencing on or after 1 August 2019 and was published in July 2020.
- key revisions were as follows:
 - recognition that adult education budgets have been devolved to a number of MCAs and the GLA and that the ESFA and these devolved authorities will cooperate in respect of their audit and assurance arrangements;
 - the inclusion of a summary of the requirements relevant to independent training providers;
 - clarification in relation to the ESFA's expectations regarding how providers should manage their subcontracting arrangements;
 - a reminder to colleges that their internal and external audit services will need to be commissioned from separate audit providers;
 - further clarification of the ESFA's own programme of funding validation and assurance;
 - recognition that colleges that have registered with OfS will be required to comply with the OfS accounts direction including the provision of an audit opinion on the appropriate use of funds;
 - a new requirement that any amendments to the standard terms of engagement for regularity assurance reviews (as prescribed in this Code) must be approved by the ESFA;

- an update to the anti-fraud checklist including the provision of a link to the ESFA's published fraud indicators.

Resolved: i That the revised ACOP be noted.

A20/95

DATE AND TIME OF THE NEXT MEETING

The date of the next meeting is **22 February 2021** at **11.30am**.