

Minutes of the meeting of the Audit Committee held on **13 November 2017**.

Present: Liz Stanley (Chair), Cllr Ken Richardson, Glen Sheppard and Ann Corrigan.

In attendance: The Principal (from Min A17/66 onwards), the Head of Finance (from Min A17/66 onwards), Rob Winter - Barnsley MBC Internal Audit Services, Pamela Radley - Barnsley MBC Internal Audit Services, Louise Booth - Barnsley MBC Internal Audit Services, Mike Redfern – Grant Thornton, Mark Lockwood – Grant Thornton and the Clerk to the Governors.

Apologies: None.

A17/61 **CLOSED SESSION WITH AUDITORS**

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

A17/62 The internal auditors reported that their initial engagement with the college had been very positive, and that the college had been exceptionally welcoming and opens in terms of disclosing potential issues and concerns.

A17/63 The external auditors reported that there was one late client adjustment to the financial statements for 2016/17 to report relating to local government pension scheme prepayments (LGPS). It was reported that:

- The pre-payment made by the college for the LGPS deficit should be taken into account as it had been included in the deficit calculation by Mercer;
- The same issue had arisen in six other colleges audited by Grant Thornton and was in no way a reflection on the college or its accounting systems and processes.

A17/64 The committee explored whether the adjustment had arisen as a result of the implementation of a changed process and were assured that it was and that the issue was a one-off and would not arise again.

A17/65 The chair reiterated that if there were any issues the auditors wished to raise with the committee outside of this formal opportunity this could be done at any time via the chair.

A17/66 **DECLARATIONS OF INTEREST**

With respect to:

- Her role as a trustee Jill Westerman declared a potential conflict of loyalty in items where they related to the Wentworth Castle and Stainborough Park Heritage Trust;
- Their role as internal auditors for the pension's authority Barnsley MBC Internal Audit Services declared a potential conflict of interest in items relating to pensions.

It was agreed that no decisions to be taken would be affected by these interests and it was not considered necessary for anyone to withdraw from the meeting.

A17/67 **MINUTES OF THE LAST MEETING**

The minutes of the meeting held on 19 June 2017 were approved as an accurate record (a copy is filed in the minute book).

A17/68 **MATTERS ARISING FROM THE MINUTES**

A17/30 The committee explored the status of the draft digital strategy and noted that work on its development was on-going and a workshop with JISC and the co-chair of the board of governors and key staff would be taking place in February to refine it further.

A17/69 **INTERNAL AUDIT SERVICE****(A copy of documents 5i and 5ii are filed in the minute book)**The committee considered the **Internal Audit Report for 2016/17** and noted that:

- The report had been prepared by Wylie + Bisset as part of the completion of their internal audit contract with the college;
- Wylie + Bisset had not attended to present the report as their contract had now concluded.

A17/70 The committee noted that:

- The report presented the opinion of the internal audit service (IAS) on the adequacy and effectiveness of the college's governance, risk management and control arrangements and that this opinion formed part of the framework of assurances that enables the board to prepare an informed statement on internal control within the annual financial statements;
- In forming their opinion Wylie + Bisset had carried out the following work:
 - a review and appraisal of financial and other controls operated by the college;
 - a review of the established policies and procedures adopted by the college;
 - an assessment of whether or not the internal controls are reliable as a basis for producing the financial accounts;
 - a review of accounting and other information provided to management for decision making;
 - compliance and substantive audit testing where appropriate;
 - a review of the college's procedures in place to promote and secure value for money;
- The IAS were satisfied that sufficient internal audit work had been undertaken to allow them to draw a conclusion as to the adequacy and effectiveness of the college's risk management, control and governance processes, and that:
- In their opinion Northern College did have adequate and effective risk management, control and governance processes to manage its achievement of the college's objectives at the time of their audit work and has proper arrangements to promote and secure value for money;
- Of the audits undertaken during 2016/17 all had been graded as strong, with the exception of student support fund which had been graded as substantial;
- In terms of benchmarking the college was significantly below the average of 10 recommendations per audit at 4 per audit;
- All KPIs were reported as being at 100%.

A17/71 The committee considered the **Internal Audit Plan for 2017/18** and noted that:

- In preparation of the plan the internal auditors had engaged with a broad range of college staff who had all been very open and had helped the auditors to understand the business;
- There had been a relatively steep learning curve for them in terms of getting to know the sector, but hopefully they had been able to demonstrate the breadth of experience they had and how it would be valuable for the college;
- The plan produced was risk informed as it was not entirely based on risk but was a more rounded review of the needs of the college and Board of Governors in terms of the assurance required;
- For 2017/18 the plan included risk register/assurance matrix, information governance, payroll, year-end journals and follow-up of previous audit recommendations.

A17/72 The committee explored:

- The meaning of the term 'high level' review, noting that it was the intention that a 'helicopter view' would be undertaken in some areas in the first instance in order to identify where further review was required;
- Whether any consideration had been given to undertaking a review of the implementation of the new MIS system and the implementation of the forthcoming new digital strategy, noting that the auditors would be guided by the college in relation to the timeliness of input in this area.

- Resolved:**
- i **That the Internal Audit Annual Report for 2016/17 be received and recommended to the Board of Governors for consideration.**
 - ii **That the digital strategy be forwarded to the internal audit service once completed.**
 - iii **That the Internal Audit Plan for 2017/18 be recommended to the Board of Governors for approval.**

A17/73 **AUDIT RECOMMENDATIONS STATUS REPORT**
(A copy of document 6i is filed in the minute book)

The committee considered the regular report which outlines the status of previous audit recommendations and enables it to ensure that recommendations are appropriately implemented in a timely manner.

A17/74 The committee noted that:

- There were ten outstanding recommendations, four medium and 6 low;
- The development of the college website was taking longer than initially planned and would probably not be completed until 2018;
- Business continuity testing would be undertaken in January 2018;
- It was suggested that the recommendation relating to IT systems penetration testing be marked completed as it had been agreed to separate the testing into two stages and the first one had been undertaken as planned.

A17/75 The committee explored the potential impact of IT hardware and how this was managed within the college, the support contracts in place and its role within the business continuity testing process.

A17/76 The committee explored recommendation three relating to disaster recovery in more detail and noted that:

- Although the action had been outstanding since April 2016 a significant amount of work had been undertaken in the area:
- Reactive plans were in place and had been tested;
- Work on relocating servers had been completed and a back-up generator system was in place.

A17/77 The committee explored recommendation two relating to restricting access to the college buildings and rooms in more detail and noted that the actions were on track to be completed by November 2017, with most of the actions already complete with just fine detail to be finalised.

Resolved:

- i **That the committee agree that the recommendation regarding IT systems penetration testing be marked completed.**

A17/78 **ANNUAL AUDIT COMMITTEE REPORT TO THE BOARD 2016/17**
(A copy of document 7i is filed in the minute book)

The committee considered the draft **Annual Audit Committee Report to the Board for 2016/17** and noted that:

- The report was in the same format as previous years;
- The report provided the committee's opinion to the Board of Governors and accountable officer on 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;
- Appendix E – Regularity Audit Self-Assessment – was not yet the final version as this was still with the auditors;
- That paras 7.7 and 10.1 would be updated following the consideration of the matters by

the Audit Committee at this meeting.

A17/79 The committee agreed that the report was very comprehensive and accurately reflected the work of the Audit Committee during the year.

A17/80 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, with the exception of one member who had not achieved 66% attendance who was no longer a member of the committee. It was noted that there were now two vacancies on the committee for members of the Board of Governors and a recommendation for appointment would be made to the board at its meeting in December 2018. The committee agreed that the proposed indicators for 2017/18 be recommended to the Board of Governors for approval.

Resolved: **i That the Annual Audit Committee Report to the Board for 2016/17 be approved for submission to the Board of Governors.**

ii That the proposed performance indicators for 2017/18 be recommended to the Board of Governors for approval.

A17/81 FINANCIAL STATEMENTS AUDIT

(A copy of document 8i is filed in the minute book)

The financial statements auditors, Grant Thornton, presented their **Audit Findings Report for 2016/17**. The committee considered the findings and explored the testing undertaken. It was reported that:

- The audit was substantially complete and there were no matters of which the auditors were aware that would require modification to their audit opinion or regularity report;
- The audit had been very clean with two minor control issues raised relating to un-cleared cheques and the signing of employment contracts, it was confirmed both issues were being addressed;
- All audit findings were rated as green;
- New external audit standards had come into force for 2016/17 resulting in the report being slightly different to previously, it was noted that the new standards included a requirement for the auditors to disclose a conclusion regarding going-concern, even where there are no issues, and to include a statement regarding the information included in the annual report section;
- The auditors had reported that they had ‘no issues which we would like to present to the Audit Committee in relation to going concern’;
- No issues had been noted with regards to improper revenue recognition, management override of controls or creditors being understated or not recorded in the correct period;
- As usual the figures in the financial statements differed to those in the management accounts due to the pension adjustments, with the result that the in-year surplus dropped to £148K, it was noted that a reconciliation statement would be provided for consideration by the Board of Governors in order to aide clarity;
- The deficit in the local government defined benefit pension scheme had decreased by £391,000 to a net liability of £3,531,000 at 31 July 2017;
- The audit had concluded that the actuarial assumptions in relation to pensions made by Mercer Limited were reasonable;
- A note regarding the segregation of duties had been included as in previous years but that this continued to be mitigated by the annual review of journals posted by the head of finance which was routinely undertaken by the internal auditors;
- There were no regularity findings reported and subject to completing their work the auditors anticipated issuing an unqualified regularity opinion within the financial statements;
- The statements would be considered by the Policy and Finance Committee at its meeting on 16 November 2017.

A17/82 It was noted that on page 64 the top line should read ‘the College has reported a current year

surplus of £148,000 before pension scheme actuarial losses', on page 73 individual names should be redacted and on page 106 the college's overall success rate should be referred to as achievement rate and read 96%.

A17/83 The committee considered information regarding the college's pension schemes in detail, noting that the auditors had:

- Reviewed the assumptions used in the FRS 102 actuarial valuation conducted by Mercer against assumptions made at other colleges as part of a national benchmarking exercise conducted;
- Assessed whether or not the assumptions used fell within the benchmarked range;
- Where assumptions lie at the extremities of the ranges highlighted them to the committee;
- Discussed management's assumptions for key inputs into the calculation of the college's defined benefit obligation. We have the assumptions with our in-house actuaries and consider them to be reasonable.

A17/84 It was noted that:

- Grant Thornton in-house actuaries had considered the management's assumptions for key inputs into the calculation of the college's defined benefit obligation to be reasonable;
- Along with the benchmarking review, the actuarial assumptions made by Mercer Limited were reviewed by Grant Thornton's Financial Services Advisory team who concluded that the assumptions were reasonable;
- In respect of the assumptions, Grant Thornton continue to recommend that the Audit Committee keeps them under review for future periods in order to ensure that they remain appropriate for the college's circumstances;
- The most significant movement from the previous year is the actuarial gain of £426,000 (2016: an actuarial loss of £1,105,000);
- There were likely to be potential future issues which the college should be alert to regarding the USS pension scheme.

A17/85 The committee explored the timetable for the implementation of the HR system and noted that this was in progress.

A17/86 The committee noted that as reported earlier in the meeting one late client adjustment had been made to the financial statements for 2016/17 relating to the local government pension scheme prepayments (LGPS). It was noted that this did not raise a control issue and was a one-off item.

A17/87 It was reported that the introduction of the Criminal Finances Act 2017 would require the college to have relevant procedures to ensure that it was not allowing tax evasion to take place.

Resolved: i **That on page 64 the top line be amended to read 'the College has reported a current year surplus of £148,000 before pension scheme actuarial losses', that on page 73 individual names be retracted and on page 106 the college's overall success rate be referred to as achievement rate and amended to 96%.**

A17/88 **STUDENTS' UNION ACCOUNTS 2016/17**
(A copy of document 9i is filed in the minute book)

The committee considered the Student Union Accounts for 2016/17 and recommended them to the Board of Governors for approval.

Resolved: i **That the Student Union Accounts for 2016/17 be recommended to the Board of Governors for approval.**

A17/89 **ASSURANCE AND RISK MANAGEMENT**
(A copy of document 10i is filed in the minute book)

The committee considered the **risk register – key strategic risks** - and was satisfied that the risks identified, the scoring applied and the controls in place were appropriate and that the overall

approach to risk management remained appropriate for the needs of the college.

- A17/90** It was reported that:
- C1 - Transfer of Adult Skills and Community Learning funding to the LEPs – had been updated to reflect the current position and the pause in the transfer in the Sheffield region until 2019/20;
 - C2 - Loss, theft or misuse of personal data leading to a breach of data protection legislation – had been updated to reflect the college's proposals regarding preparing for GDPR and the appointment of a data protection officer and the probability had been increased. The committee noted the inclusion of this area of work in the college's internal audit plan for 2017/18;
 - C3 - Failure to manage the impact of Wentworth Castle Trust's decision to cease trading – had been reviewed since the papers were prepared and had now been downgraded and was therefore no longer a red risk;
 - F1 - Failure to maximise income generation opportunities – a growth request would be considered by the Policy and Finance Committee at its meeting in November 2017.

A17/91 The committee explored the college's preparations for GDPR in more detail and were assured that the college was on track to be compliant by May 2018.

Resolved: **i That the risk register – key strategic risks be noted.**

A17/92 **PRINCIPAL'S REPORT**
(A copy of document 11i is filed in the minute book)
 The committee received and noted the Principal's Report September 2017, noting that it was the correct report despite the typo in the heading which stated it was from July 2017.

A17/93 **DATE AND TIME OF THE NEXT MEETING**
 The date of the next meeting is **Monday 26 February 2018 at 11.30am.**

Signed	
Position	Chair of Audit Committee
Date	