

**MINUTES OF THE MEETING OF THE  
AUDIT COMMITTEE  
held on Wednesday 20<sup>th</sup> November 2019 at 8.00 a.m.**

Present: Mr Geoffrey Bowley, Mr Hugh Stafford-Smith, Mrs Sarah Ediss

Apologies: Mr Karl Banister

In attendance: Mrs Sally Bromley (Principal), Mr Chris Harris (MHA MacIntyre Hudson),  
Ms Connie Coles (RSM), Mr Ian Dumbleton, Ms Nicola Whitehead

In the Chair: Mr Hugh Stafford-Smith

**1. Declaration of interests**

There were no declarations of interests.

**2. Minutes of the meeting held on 12<sup>th</sup> June 2019** were approved.

**3. Matters arising**

**Item 3:** The Chair reported that the **Mercers' Company had yet to finalise their Philanthropy Strategy for Young People and Education with regard to grant applications** which, it was thought, would change the way in which grants were provided. In the meantime, bids for support would be considered as evidenced by the **Principal's recent submission, seeking a grant of £75k over three years to cover student internships and mental health** on which the outcome was expected shortly.

The Finance Director confirmed that the Finance Department was enforcing the requirement for **public liability insurance for all lettings**.

**Item 4c:** The Clerk reported that the Remuneration Committee had discussed **possible adoption of the AoC Remuneration Code**, agreeing to **review this again in 2020** at the same time as the Audit Committee would be reviewing the general governance code to be adopted, in anticipation of the 2019-20 accounts.

**Item 6:** The Finance Director reported that, in spite of staff changes, MHA MacIntyre Hudson had continued to provide **continuity of good service**, superior to that of other providers in recent years. A **new Audit Manager had just been appointed** and would be introduced at the next meeting.

**4. Internal Audit reports:**

*Papers: Website effectiveness report; Draft IAS Annual Report 2018-19; Update to Internal Audit Plan 2019-20*

- i) The Finance Director drew attention to **MHA's Annual Report 18-19** which reflected a **good College performance overall**. Mr Harris explained that the increased number of recommendations - albeit at a low level- should not be of concern as this reflected a sensible choice by the College of (largely new) work to be tested where MHA was, as intended, able to add value.
- ii) The **final specialist report on website effectiveness** had been particularly **detailed** with efforts made to ensure this could be seen in context with usual internal audit reports. There

was room for debate as to what constituted a 'low' or 'advisory' recommendation but in any event the report indicated that **the College was performing well against its peers with no inherent risks in its structure**. Members noted that the advice provided had been taken into account in the recent website changes, for example, in respect of Search Engine Optimisation (SEO). The Chair welcomed the 'mobile- friendly' approach and increased flexibility for the College in updating content internally which would facilitate the essential dynamic nature of the site.

- iii) In examining the **status of recommendations report**, members noted that **most had been achieved with that relating to GDPR and suppliers due for completion by the end of term**. The Chair proposed that suppliers be given a deadline by which to confirm their compliance (*Action: Finance Director*). **Members noted the recent approval by the F&GP Committee of new Data Protection and Archiving and Retention policies**, recognising the challenges in complying with the records management of both paper and electronic records and the need therefore to **prioritise personal data and review policy and practice in due course** in order to learn from experience.
- iv) Turning to the **updated plan for 2019/20**, members noted that this now reflected discussion at the last meeting in covering the **ILR, staffing issues including succession planning, insurance, safeguarding and Prevent**. In response to questions, the Finance Director explained that the sum of days proposed was now 15 owing to a reduction in the days required for the insurance audit (from three to two) reflecting its focus on the scope of insurance. One day (of the usual 16 days audit) would be kept in hand for potential additional checks but would not be charged if not needed. MHA were proposing to keep their 18/19 rate of £630 per day for 2019/20.

**Recommendation: That the Governing Body approve the audit plan of up to 16 days (with 15 currently allocated) at a maximum cost of £10,080 (excl. VAT)**

Members recognised that the **plan should be looking a further two years ahead** (and dropping previous years from this plan). Asked about any areas of concern not yet covered against the MHA's checklist, Mr Harris confirmed that there was nothing obvious but that as he was relatively new to the College, he (with the new appointee) would want to consider this in more detail taking account of the Audit Committee's interests, SMT's views on the forward look and the College's risk arrangements, **particularly where there was a large gap in the gross and residual risk scores** where the controls were most important. The Principal commented that **preparation for Ofsted might be timely in 20/21 and one member asked for clarity on the level of assurance available on health and safety** taking account of existing external checks and complementary safeguarding reports. **Anti-fraud arrangements might also be worth considering.** (*Action: Finance Director to plan internal audit item for SMT agenda to consider priorities for 20/21 and 21/22 audit reviews and liaise with MHA re proposal document for Audit Committee endorsement*).

*[Mr Harris and Ms Coles left the meeting]*

- v) The Finance Director commented on the continued **responsive service from the internal auditor** in spite of the loss of three points of contact over the year. As such reappointment for a further two years was recommended.

**Recommendation: That the Governing Body approve the reappointment of MHA MacIntyre Hudson for a further two years to summer 2022.**

- vi) Looking ahead to agenda item 7, in the absence of the auditors, the Committee took a provisional view of the **performance of the external auditor pending formal review** at the Spring meeting. The Finance Director reported that **overall the College was happy** with the

service. **At times the advice, whilst technically correct** (for example in relation to accruals with non-government grants) **could be challenging** but this was no bad thing. Similarly, the complications this year following the McCloud judgement had required appropriate treatment across the sector. The Audit Manager and staff 'on the ground' continued to be very helpful. As such there was **no desire at present to retender**.

*[Mr Harris and Ms Coles rejoined the meeting]*

## 5. Risk Management update

*Paper: Minutes of the Risk Management meeting 11<sup>th</sup> November 2019; Potential External Strategic Level Risks November 19 update; Risk Assessment and Controls College Wide 19-20 update*

The Principal introduced discussions explaining that the Risk Management Group (RMG) had recently met (attended by two members of the Committee) to review the external strategic risk register and College Wide risks with each member of staff also updating their underlying risk management plans. **Scores had been amended to reflect action taken and, most notably, a funding uplift of c. 10% overall. A new risk in the top 10 however reflected the ongoing pay negotiations. Succession planning of the Principal had also been included** in the individual strategic planning risk assessment, **albeit with relatively low scores**. Discussion had therefore **focussed on GDPR** and the forthcoming **CIF bid where the lower risk option of seeking funding for GB2 only had been favoured**.

## 6. Financial Statements Audit

*Papers: Letters of representation, draft Audit Findings Report (AFR), Regularity Audit update; Report and Financial Statements (RFS) year ended 31<sup>st</sup> July 2019; ESFA fraud checklist and indicators; Letter from Eileen Milner and report of Bourneville College*

### a) Audit Findings Report

- i) Ms Coles confirmed that the **AFR reflected a smooth audit**. The only outstanding action had concerned a post balance sheet event with confirmation awaited from the actuary regarding the pension assumptions and McCloud impact. There was **clear assurance on e.g. absence of management override of internal controls and 'going concern'**. A small number of **adjustments had been made in terms of income recognition but one considered immaterial in relation to non-Government grants**. The **FE SORP was known to present challenges in this regard across the charity sector** with schools and colleges more used to being cautious about anticipating income. That said, **members recognised the good intentions of the Charity Commission input to the SORP** in reflecting the needs of the grant giver and that this difficulty could not therefore be resolved. **The outcome was however potentially misleading in the context of the funding agency's in-year calculation of financial health**. If the recent bid to the Mercers' Company were successful, the Principal would liaise with the FD and RSM to ensure the most appropriate accounting treatment. **(Action: Principal/ FD)**
- ii) Returning to the **pension scheme liabilities**, Ms Coles explained the need to place some value on the **McCloud impact** so that the College could be confident this was **immaterial**. At **c.£20k** this was indeed the case. The Finance Director explained further the **healthy position of the College's LGPS pension scheme** which was **123% funded** (down from 160% the previous year but still healthier than most). As this was over the 120% threshold, the **actuary was able to discount the College's contribution from April 2020 by 1% over each of three years**.

- iii) Members noted a further small unadjusted misstatement in relation to furniture and a number of adjustments including a capital accrual owing to a late invoice. Two issues with **internal controls** had been identified, one in recognition of the **increased ESFA focus on fraud**, suggesting more regular discussion by the Audit Committee, the other in relation to **review of non-payroll journals**. On the latter the small team and resource issues had meant there **had been a reliance on variance analysis** but that **further training would be provided to the Finance Manager to facilitate effective review**. *(Action: Finance Director).*
- iv) Members noted the **inclusion of fraud risk in the Finance Director's financial risk assessment and termly updates to the Committee**. They recognised the **increased threat of external fraud** with internal systems and S7 'tip-offs' having proved helpful in spotting potential cases. **With reference to the ESFA's checklist and indicators of fraud, the Chair proposed that SMT consider these in the College's own context prior to a report to the next meeting**. *(Action: Finance Director to bring to SMT and report to next meeting)*. Ms Coles reported on some of the instances RSM had seen in colleges including cyberfraud. Invoices had been intercepted and bank details and contact numbers changed so that even checks could be falsely reassuring. **Members requested a brief summary of those instances of attempted fraud which the College had detected** which, along with the report above, **could inform any necessary additional controls or suggest an internal audit review in this area**. *(Action: Finance Director).*
- v) Finally members noted the standard **letters of representation and were content with level of materiality applied**. They thanked RSM for the very helpful appraisal of emerging issues, noting the College's position with regard to T levels and associated capital bids.
- b) The Clerk explained that **additional information on overseas travel and expenses had been included in the Regularity Audit questionnaire in the light of the ESFA concerns about fraud and SPH remuneration** further to discussion of the Remuneration Committee.
- c) Turning to the **Report and Financial Statements**, members recognised the division of responsibilities with F&GP. That said, in addition to confirming satisfaction with the processes and associated reports, **a number of minor clarifications and amendments were proposed** (including 'surplus' v deficit – in audit opinion- and letters of engagement references, final pension clarification and funding rules, asset recovery coverage). *(Action Finance Director to amend with RSM and include explanation of cash balances in top sheet for governors)*. Members noted in particular that the College was **well aligned in terms of the new disclosures of executive pay relative to other staff. At 3.2/3.3 Collyer's was at the lower end of the SFC band** (typically a multiplier of 3-5) and well below that in GFE which tended to be in the 5-7 bracket. The Clerk confirmed that the Remuneration Committee were aware of the measure and Collyer's position.

**Recommendation: that the Governing Body approve the Audit Findings Report (including Letters of Representation), Regularity SAQ and Report and Financial Statements subject to any comments from F&GP (and minor amendments identified).**

## 7. **Audit Committee Annual Report to the Governing Body**

*Paper: Audit Committee Annual Report to the Governing Body 2018-19*

The Clerk noted that a small number of amendments would be necessary to reflect the discussion that day, most notably in relation to follow-up on fraud given the ESFA concerns

in response to a number of control failures in other colleges. *(Action: Clerk to circulate revised draft to Committee members prior to submission to the Governing Body).*

**Recommendation: That the Governing Body approve at its next meeting the Audit Committee Annual Report subject to the amendments identified.**

**8. Any other business** None

**9. Meeting assessment**

The Committee were pleased to have had both auditors present and to have taken advantage of the opportunity to discuss performance in their absence. The information provided had been succinct and yet sufficiently comprehensive. There was good evidence that information was being shared appropriately between committees particularly with regard to the Audit Committee's role in monitoring appropriate assurance.

**10. Date of the next meeting: Thursday 5<sup>th</sup> March 2020 at 08.00.**

*The meeting ended at 10.15 a.m.*

Chair.....

Date.....

NCW 29/11/19