

**Minutes of the Meeting of the Audit Committee
held on Friday 30th November 2018 at 8.00am
In Room 814
at Matthew Boulton Campus**

| Present: | Apologies: |
|-----------------------------|-------------------|
| Simon Thompson (ST) (Chair) | Dan Zastawny |
| Michele Larmour (ML) | |
| Amardeep Gill (by phone) | |
| In Attendance | |
| Cliff Hall (CH) | |
| Martin Penny (MP) | |
| Jonathan Lanes (JL) (BDO) | |
| Tony Felthouse (TF) | |
| Liam Nevin (LN) | |

Apologies & Declarations of Interest

Apologies were received from Dan Zastawny

There were no declarations in addition to those recorded on the register of interests, save that Tony Felthouse declared that he was also the auditor for Harborne Academy

Item 1 – Minutes of the meeting held on 29 June 2018

The minutes were agreed as a true and accurate record of the meeting.

Matters Arising and Action Log

There were no matters arising and the Action Log was noted.

ST stated that there were two highly significant issues on the agenda; firstly, the assurance around the financial statements and going concern judgements which required an exploration of how the external auditors were assessing the facts, and secondly the timeline of events upon which going concern was contingent. Secondly, the Committee needed to examine the findings of the internal auditors around income. With the agreement of the Committee, agenda items were taken out of order in order to expediently manage the business and focus on these areas.

Item 2 – Internal Audit Annual Report

This item was addressed as part of item 7

Item 3 – Audit Committee Annual Report 2017/18

LN introduced the report and advised that the Committee were required to advise the Corporation on its activities during 2017/18 and to report on the control and governance framework within the College. In terms of the working of the Committee, LN advised that there was a need to expand its membership, and in relation to controls and governance the report identified the particular weaknesses in 2017/18 around budget control and financial planning and also the lack of assurance in relation to data quality.

It was agreed that committee attendance as well as membership was a matter that needed addressing ML stated, and it was agreed, that recruitment to the Committee was "essential" and not "desirable."

Accordingly it was

RESOLVED

- **That subject to the matter identified in the preamble to this minute, the Committee approve the annual report.**

Item 4 – Regularity Audit Questionnaire

MP advised that the questionnaire had been compiled as a basis for KPMG to map against their work on regularity compliance and TF added that there were a standard set of tests used by the auditors and the questionnaire helped focus this work.

ST asked whether KPMG had identified any issues that caused them to change their audit approach and TF advised that they had not and that they were now undertaking final checks and they did not expect to amend their regularity opinion.

Accordingly it was

RESOLVED

- **That the completed Regularity Audit Questionnaire be recommended to the Corporation.**

Item 5 – Draft Management Letter, Letter of Representation and Statement of Governance

TF drew the attention of the Committee to the significant risk section set out in pages 5 and 6 of the Management Letter which had now been finalized with the exception of the going concern judgement. In relation to pension liabilities KPMG had, through their actuaries, reviewed the assumptions and were comfortable with them.

The Committee was further advised that there was one uncorrected audit misstatement in relation to enhanced pension provision, and this had a 120k impact. The control deficiencies contained in the management letter were not high risk and KPMG were satisfied with the management response. Other than the resolution of going concern, the Committee was advised that the remaining outstanding issues were routine.

ST asked whether the external auditors were confident that all risks had been identified and in particular whether there were any areas on the balance sheet that would cause concern in the future.

TF advised that they had carefully scrutinised the debt position. Bad debt had moved significantly but the provision was reasonable, and there were no other areas that were of particular concern. It was however notable that there had been a large adjustment on pension charges towards the year end and it was usual for the actuary to give an indication of the likely movement in the previous year.

MP advised that draft financial statements would contain this information.

ST stated that he had previously raised his concern about pension accounting and liabilities and requested a short briefing to be delivered to the Corporation around financial statements

and the pension liability. It was necessary that governors understood the scale and potential liabilities generally within the context of the position disclosed by the financial statements.

ST stated that the approach to Harborne Academy also needed to be clarified and TF explained that the College had moved its position and no longer expected to recover the investment made. MP stated that the value of the investment had now been impaired to zero and TF advised that this was sensible.

ML asked whether there was anything that could have been done differently and which would have identified the College's worsening finances earlier and TF advised that the College's financial position had deteriorated sharply after they had last visited in March.

ML stated that a question for the committee was whether the external audit programme was sufficiently structured to provide the necessary assurance given that its emphasis was on year end, and that the College would not therefore encounter the same issues in the future.

The rest of this item, including the resolution, is contained in a confidential minute

Item 6 – Risk Management Update

MP introduced the paper and advised that all risks had been reviewed and the report highlighted key risks that remained high after mitigations had been applied. These included three significant financial risks and also curriculum offer and market demand.

CH stated that he considered quality to be a more significant issue than curriculum offer. Ofsted had opined that the College curriculum met local and regional needs, and the managerial judgement that there was a need to modernise IT and digital was not a judgement that was reflected in the Ofsted report. On reflection the risk assessment in relation to this issue may be over stated.

ML noted that culture was also "red" RAG rated and questioned whether the College had the resource to focus on this number of risks when it was also necessary to reduce staffing.

CH stated that he proposed to revisit the curriculum risk because it also anticipated a shift in government policy that had not yet been published. However, he agreed that the risk in relation to culture was significant at a time when the College would be reviewing its staffing structure.

JL stated that BDO and College management had done significant work on assurance, which was designed to identify how well the mitigations were working. However, this was no longer contained in the risk register. JL would be meeting with MP to review the effectiveness of the framework and CH and LN would be invited to that.

Accordingly it was

RESOLVED

- **That the risk management report be noted**

Item 7 –Internal Audit Reports

Item 2 on the agenda was considered at this point.

JL summarized the conclusions set out in page 7 of the report in respect of the design and operational effectiveness of governance, risk management and internal control. It was notable that the financial audits resulted in limited opinions and presented less assurance than had been evident in the previous annual report.

Turning to the current reports, JL advised that progress was being made on GDPR, that the College could demonstrate a good plan and that it was doing as much as was reasonable. He felt that the regulatory risk to the College was low in light of the progress being made and which was consistent with organisations that processed high volumes of personal data.

The income diversification report demonstrated that the College was not diversifying income and the fundamental reason for this was that there was no focus on or target for diversification, and there was no specific Executive lead for this area of work. In addition, the College was not strategically identifying opportunities or learning lessons from bids made, and the consequence of this was that it was heavily reliant on government funded programmes.

CH stated that this had not been an area of focus during his time with the College, and there was a much greater emphasis on apprenticeships. Louise Jones would now be tasked with addressing these issues.

ML questioned whether CH was satisfied that the College had sufficient expertise in this area and CH confirmed this stating that the team was well connected and it was a matter of shifting the emphasis and priority in their work.

ST stated that the report pointed to the activity necessary to ensure that the College was working to a surplus in the future.

ML stated that Corporation members were well connected and may be able to support this work through their networks if briefed on the strategic priorities that the College was pursuing. This was a matter worth emphasising at the Corporation meeting.

Thereafter JL summarized the findings of the audit of the Discretionary Learner Support Fund and emphasised that there was a high probability of overspend because the arrangements for budget control and reconciliation were decentralized to each College. In addition, there was a lag with reconciliation and spending continued during this period.

ST stated that he considered a £270k overspend to be astonishing and JL advised that this had been tolerated by the College because it was driving student numbers.

MP advised that the College had made a commitment to provide free travel which was not properly costed and it was shown as a provision in the accounts. Controls had now been tightened and spend was being monitored every month.

Accordingly it was

RESOLVED

- **That the Annual Internal Audit Report and the internal audit reports as presented be noted.**

Item 8 – Internal Audit Reports – Management Actions

LN summarized the report and advised that the format had been adapted to reflect that used by BDO. It was pointed out that whilst there was generally good progress with the implementation of recommendations, there were a small number that were outstanding well beyond the implementation date originally agreed by management.

JL noted that this applied in particular to the leavers process from the Payroll 2015-16 report and MP advised that he was not satisfied that this process was working adequately.

ML stated that the Committee would require an update on the actions outstanding and the controls being applied to mitigate risk and that this issue should be flagged with the Corporation

Accordingly it was

RESOLVED

- That the report be noted

Item 9 – Insurance Annual Report

MP introduced the report and advised that he was arranging for the insurers to brief the Executive on the extent of cover and the notification arrangements required of the College in order to claim under the policy.

LN advised that governor liability insurance was included in the policy. However, this appeared to be covered by two policies and he was making further enquiries as to which would be applicable.

Accordingly it was

RESOLVED

- That the report be noted

Item 10 – Health and Safety Update

There being no debate

Accordingly it was

RESOLVED

- That the report be noted

Item 11 – Confidential Discussion with Auditors

This item is recorded in a confidential minute

Any Other Business

None

Date of next meeting: Friday 1st March 2019

Signed.....
Chair

Date..... 1/3/19

