

Minutes of the Audit Committee meeting
held on Friday 04 December 2020 at 8.00 am By
Microsoft Teams

Birmingham Metropolitan College

Present	Apologies
Sir Dexter Hutt (DH)	
Cliff Hall (CH)	
Simon Thompson (ST)	
Iqbal Mohammed (IM)	
Helen Miles (HM)	
In attendance	
Martin Penny (MP)	
Louise Jones (LJ)	
Fiona Yardley (FY)	
Alison Rowe (AR) BDO	
Mark Dawson (MD) KPMG	
James Keen JK) KPMG	
Hilary Barber (Clerk)	

Reference	Agenda item
	Apologies
	No apologies were received. Michelle Larmour (ML) was absent. DH reported that it was possible that ML was still working in North Africa.
	Declarations of Interest
	No other declarations were received in addition to those contained in the College's Register of Interests.
1.1	Minutes of meeting held on 26 June 2020
	As minutes of the previous were not available this item was postponed to the next meeting.
1.2	Matters Arising and Action Log
	See above.
2	Insurance Annual Report
	<p>Further to the report circulated to governors prior to the meeting FY highlighted:</p> <ul style="list-style-type: none"> ▪ At the end of July four claims were outstanding totalling £19k. The most significant claim, with an estimated settlement figure of £10k relates to a Motor Vehicle claim. ▪ The cost of the proposed insurance policy is £162k for this year and includes £2m cover for Cyber issues. The provider is FE Protect. It is anticipated that insurance premiums will rise in the forthcoming year due to the impact of Covid. <p>Governors' Questions and Observations</p> <p><i>"Has this policy been the subject of a tender process and is this a requirement?" (ST)</i></p>

	<p>MP noted that prior to this policy being agreed at its initiation, there was a full tender process. The framework has provided the tender process for this year. FY confirmed that there was not a need for a tender process this year as the committee were being asked to recommend an extension on current terms for the existing policy. The proposal is made in the strong likelihood that rates will rise significantly during next year and prior to August 2021 which is the next renewal date.</p> <p><i>“Does the cost represent an increase on last year’s premium? If this is a long-term policy does its cost reflect market rates? It is noted that the cost will be c. £1m over the five years of the policy” (ST)</i></p> <p>FY confirmed that the premium has reduced reflecting the disaggregation of the Stourbridge site.</p> <p>MP agreed to circulate a schedule of comparative rates to evidence Value for Money from the proposal.</p> <p><i>“Has the current policy been checked to explore if there are opportunities to cover costs incurred as a result of Covid?” (HM)</i></p> <p>MP responded that the Business Interruption clause is being monitored along with the outcomes of a test case currently being brought in this context.</p> <p>IT WAS RESOLVED THAT:</p> <p>AUC20: 20</p> <ul style="list-style-type: none"> - MP will report back to governors on comparative rates - Agreement on the proposal can be approved by a Chair’s Action
3	<p>Health and Safety Annual Report</p>
	<p>LJ presented the report circulated to governors, highlighting the following:</p> <ul style="list-style-type: none"> ▪ this year’s focus was dominated by Covid and ensuring a safe reopening of the colleges, partially in June and fully in September. It was noted that measures taken exceed government guidelines. ▪ 153 positive cases of Covid have been reported of which 17 are staff and 138 students. A third of these have occurred following the November lockdown. Each case has been investigated and no in-house college transmission has been identified. ▪ the new Health and Safety manager took up post in January 2020 and has had a very successful year. Risk assessments, processes and policies have been reviewed and updated. ▪ 47 accidents have been reported including one reported to RIDOR ▪ it is intended that a new strategic review of Health and Safety be developed by the Health and Safety Manager and Director of Estates resulting in a new Strategic Plan, based on a 2 year rolling programme <p>Governors’ Questions and Observations</p> <p><i>“Have there been any fire evacuation practices given the constraints of social distancing?” (HM)</i></p> <p>LJ reported that there had been an unplanned evacuation at James Watt which had enabled management to learn lessons. More difficult than the evacuation was ensuring the safety of students returning back into the college. Guidance suggests that, in the event of a fire evacuation, it is not necessary to comply with social distancing. Subsequently successful evacuation drills have taken place at each college.</p> <p><i>“Do first aiders have access to PPE?” (HM)</i></p> <p>LJ confirmed this was the case.</p> <p><i>“Are further details of the physical assault mentioned in the report available?” (ST)</i></p> <p>LJ apologised that the details were not to hand; however, a report will be circulated to governors by email.</p>

	<p>IT WAS RESOLVED THAT:</p> <p>AUC20: 21</p> <ul style="list-style-type: none"> - The Health and Safety Annual Report is noted. - LJ will circulate details of assault to members
4	Risk Register Update
	<p>MP reported that since June 2020 two separate Risk Registers have been running, one of which has dealt with Covid issues. However, the separate register has now been integrated into the main Register and this aspect is being managed by LJ.</p> <p>MP stressed that this is a “living” document and risk capture takes place at the end of each leadership meeting with the register being updated accordingly. The register will be reviewed again formally in January 2021 to ensure that it recognises likely changes in the coming year.</p> <p>Governors’ Questions and Observations:</p> <p><i>“Is MP happy with the overall status of the register?”</i></p> <p>MP responded that it offers a clear indication of risk including:</p> <ul style="list-style-type: none"> ▪ the impact of reduced enrolment in the 16-18 and Adult Learner groups ▪ Birmingham’s designation in Tier 3 <p>MP added that it is carefully managed and reviewed regularly. Agreement is needed for requests to amend completion dates. CH noted that legacy issues would be cleared as part of the review to leave a schedule of current risks.</p> <p>IT WAS RESOLVED THAT:</p> <p>AUC20: 22</p> <p>The Risk Register report is noted.</p>
5.1	Internal Audit Progress Report
	<p>AR reported that delivery of the 2020/21 Internal Audit Plan commenced in October 2020 with a review of Health, Safety and Wellbeing.</p> <p>Currently two further reviews are in process on Apprenticeships and Adapting the Curriculum Plan.</p> <p>Three further audits are planned from January 2021 as follows:</p> <ul style="list-style-type: none"> ▪ Information Learning Technology strategy ▪ Budget Setting and Budgetary Control ▪ Learner Records <p>Governors’ Questions and Observations:</p> <p><i>“In the light of recent events, should Learner Records be given a priority? Is the scope of the proposed audit sufficient?” (ST)</i></p> <p>AR responded that evidence had been taken as part of a previous review and CH added that Learner Records had been the subject of in-depth scrutiny. The additional assurance that an audit could bring to these investigations is welcomed.</p> <p>IT WAS RESOLVED THAT:</p> <p>AUC20: 23</p>

	The Internal Audit Progress Report is noted.
5.2	Subcontractor Audit Report
	<p>AR explained that the ESFA’s funding agreements now include a clause which requires FE providers to obtain external assurance on sub-contracting arrangements on an annual basis where such delivery has an aggregate value of £100k or more in one year.</p> <p>The college reduced its sub-contractors to 5 last year and has appointed none since.</p> <p>Six areas were identified where the college’s internal control framework needs to be improved to ensure they are fully compliant with the ESFA funding rules – see page 3 of the report. Recommendations made previously have been followed up but 3 recommendations are carried forward from last year.</p> <p>MP noted that recommendations have been integrated into the Audit Tracker and LJ has been given overall responsibility for leadership of contracting.</p> <p>Governors’ Questions and Observations</p> <p><i>“Regarding Project Carthage and the consequent funding clawback and legal fees expended, how is the college addressing the issue of responsibility and accountability?” (IM)</i></p> <p>CH thanked IM and recognised the concern raised. It was agreed that this should be addressed as part of a confidential discussion with the full Board. Corporation members have a shared understanding of the situation and should have an opportunity to contribute to a full discussion. DH added that it was proposed to extend the length of the next full Board meeting to facilitate a meaningful discussion.</p> <p>IT WAS RESOLVED THAT:</p> <p>AUC20: 24</p> <p>The Subcontractor Audit Report is noted.</p>
5.3	Internal Audit Report 2020/21: Health, Safety and Wellbeing
	<p>AR reported that a Health, Safety and Wellbeing Audit had been completed resulting in four findings of medium significance (see Appendix 1 of the report) and a “moderate” level of assurance. The audit was completed through the lens of Covid and interrogated the wellbeing of staff, compliance with government guidance and the process of managing accidents and safety incidents. Examples of good practice were detailed alongside identifying areas for improvement, some of which had already been highlighted by the Health and Safety manager.</p> <p>IT WAS RESOLVED THAT:</p> <p>AUC20: 25</p> <p>The Internal Audit Report 2020/21: Health, Safety and Wellbeing is noted.</p>
6	Draft Management Letter and Letter of Representation and Statement of Governance
	<p>Financial statements:</p> <p>MP noted the latest Financial Statements circulated to governors and highlighted that the most significant amendment is the FRS102 pension valuation. MP explained that the Auditors referred this to their actuaries as it was considered potentially over-prudent and outside of their tolerance levels. Further talks were held yesterday with the LGPS actuaries who agreed a reduction in %rates applied, resulting in a deficit reduction of £3.8m. MP agreed to re-issue the Financial Statements to reflect the new valuation noting that the amendment does not impact the cash or trading position.</p> <p>Governors’ Questions and Observations:</p>

“Does this have an impact on the bank covenants?” (ST)

MP confirmed it did not, explaining that it was an accounting technicality that impacts net assessments only.

“Why is the valuation so different to last year?” (IM)

MP offered to share the report with governors. It defines assumptions made on returns on assessments, likely mortality rates, CPI rates, Covid etc. MP noted that the other colleges were reporting similar amendments to their valuations.

“Would it be helpful to add an explanatory note to the accounts to explain the background to the amendment and what it means in terms of long-term obligations?” (ST)”

“Noted the importance of governors understanding the real liability of the pension deficit” (HM)

MP acknowledged both points raised and agreed that this liability would become significant if the college were to find itself in a crystallising event.

“Being aware that MP is leaving BMet in March, what will be the financial staffing structure after that time?” (IM)

CH confirmed that MP would leave his current post on 31 March and discussions are taking place about the staffing of the finance function. A meeting took place last week with the Chairs of Committees and it was agreed that a proposal should be tabled to the full Board on 17 December. CH also noted that MP may offer further support post March on a draw down basis to support the transition period.

MP reassured the committee that there exists a clear and shared understanding by a group of senior leaders of the College’s finances and the impact of actions taken. CH also noted that the new Principal, Pat Carvalho has a strong financial acumen and awareness.

“How has the financial impact of Project Carthage been included in the accounts? Given the sums involved is there a need to disclose?” (ST)

MP responded that costs were included in non-pay. MP and MD agreed that there was no regularity need to disclose and are comfortable that the payments are being captured in creditors accounts.

“Whilst valuing the opinion of the external auditor on this matter, ST suggested that this should be a subject of discussion at Corporation to explore whether an ethical need to disclose exists” (ST)

Committee members agreed unanimously that the decision on disclosure should lie with the full Corporation.

Draft Management Letter and Letter of Representation

MD and JK drew attention to the headlines detailed in Annex B of the report with its overall opinion that the College is a “going concern” and is able to meet its financial obligations.

MD noted that the audit was carried out remotely and thanked FY and the team for their support throughout the process. MD pointed out that the overall summary notes the following:

- Appendix One (page 17) details three low-level recommendations
- Page 10 indicates that the audit opinion is subject to technical review – this applies to all audits
- One uncompleted and one partially completed recommendation are carried forward from last year
- A small number of presentational adjustments are detailed on Page 22 of the report.

IT WAS RESOLVED THAT:

AUC20: 26

The Draft Management Letter and Letter of Representation are approved subject to:

- **The outcome of discussions at Corporation regarding whether costs arising from Project Carthage should be disclosed**
- **The addition of commentary to explain the amendments arising from the FRS102 valuation**

7	Regularity Audit Questionnaire
	<p>MP noted that the questionnaire circulated to governors is in line with previous years with the addition of ESFA Appendix A which relates to Covid.</p> <p>IT WAS RESOLVED THAT:</p> <p>AUC20: 27</p> <p>The Regularity Audit Questionnaire is approved.</p>
8	Audit Committee Annual Report 2019/20
	<p>MP noted that the report is drafted subject to the addition of attendance at the June 2020 meeting.</p> <p>The attendance of ST, IM, HM and ML was confirmed.</p> <p>MP added that point 11 details the Value for Money strategy. It was agreed that the first sentence should be deleted as this is a new statement and the Audit Committee have not undertaken the monitoring role this year.</p> <p>IT WAS RESOLVED THAT:</p> <p>AUC20: 28</p> <p>The Audit Committee Annual Report 2019/20 is approved subject to:</p> <ul style="list-style-type: none"> ▪ Updating attendance figures for the June 2020 meeting ▪ Removing the first sentence in paragraph 11 – Value for Money
9	Contract Action Plan
	<p>LJ explained that the plan was developed as a result of the Carthage investigation and is based on the College's own assessment of areas required to improve all elements of the contracts process. The recommendations of two external reports by BDO and PWC are included in the report.</p> <p>LJ noted that substantial actions are in place to ensure that compliance standards are met. It was agreed that LJ will circulate the outcomes from a planning meeting taking place in early January 2021 to inform further discussion.</p> <p>LJ highlighted the following:</p> <ul style="list-style-type: none"> ▪ the value of the external reports in conjunction with the college's internal investigation ▪ monthly progress updates against the action plan are shared with SLT, Board members, ESFA and WMCA ▪ investigations are ongoing in relation to rail engineering for 2018/19 and 2019/20 and the quality of provision and funding. Further auditing by the college of 100% of records has identified a small number of issues. Findings have been forwarded to PWC for an external sample check. ▪ A new post of Contracts Compliance Officer has been created and an appointment made in June 2020. Regulatory checks are being carried out and recommended actions completed. New controls are in place and regular updates will be circulated to the Audit Committee and the WMCA and ESFA. <p>Governors' Questions and Observations</p> <p><i>"The Contract Action Plan contains a long list of actions. How are these prioritised?" (HM)</i></p> <p>LJ thanked HM for the question recognising its importance. All aspects are deemed a priority in view of the potential risk to the college's reputation. However, there is a need for those aspects of most importance to be categorised to facilitate effective reviews by the Audit committee.</p>

	<p>CH added that discussion was ongoing to formulate a plan that identifies key priorities, timeframes and those responsible for the actions. This will be shared with the WMCA at a meeting on Monday and input sought from Carl Bentley of RMS who has also contributed to the external reviews.</p> <p><i>“Given the volume of work involved and the urgent need to ensure compliance should additional human resource be allocated?” (DH)</i></p> <p>CH noted that the Contracts Compliance Officer (Leona Fisher) will report directly to LJ who has taken on overall responsibility for contracting. It was agreed that the CCO may need additional resource. It was also noted that should the Company Secretary not be fit to return to work in the new year, it may be necessary to identify some external consultancy.</p> <p><i>“How is the item regarding Data rated as Red being addressed?” (ST)</i></p> <p>LJ responded that previously procedures were recorded in different areas and not updated in a timely manner. The Director of IT has completed work on bringing records of procedures together (to be refined) and the risk is now rated Amber.</p> <p><i>“Is Amber satisfactory?” (ST)</i></p> <p>LJ agreed it was not and stressed the need for managers to take responsibility and ensure compliance for their own contract processes under the scrutiny, and with the support of, the Contracts Team.</p> <p>IT WAS RESOLVED THAT:</p> <p>AUC20: 29</p> <p>The Contract Action Plan is noted.</p>
10	Matters for Referral to Corporation
	<ul style="list-style-type: none"> ▪ Accountability for Project Carthage ▪ A structure for leadership of the Finance function ▪ Project Carthage – should costs incurred by disclosed?
11	Any Other Business
	No other business was raised.
12	Confidential Discussion with Auditors
	No further discussion was conducted.
	There being no other business the meeting was closed at 9.50 am.