



**Part 1 Minutes  
Meeting of the Audit Committee  
Wednesday 20 June 2018 at 4.30pm  
Principal's Office**

<b>Present:</b>	Neil Dew-Gosling	(NDG)	Governor ( <i>Chair</i> )
	Frank Pitkin	(FP)	Governor
	Ian Thomson	(IT)	Governor
<b>Apologies:</b>	Andrew Try	(AT)	Governor
<b>In attendance:</b>	Gillian May	(GM)	Principal
	Richard Munday	(RM)	Finance Director
	Tracy Reeve	(TR)	Clerk to the Corporation
	Sarah Mason	(SM)	RSM LLP ( <i>External Auditors</i> )

**19/18 Chair's Agenda Item**

The management team left the meeting and the Chair sought, and was given, confirmation that there was nothing that the auditors or other Committee Members wished to discuss under this item.

**20/18 Apologies for absence**

Apologies had been received from Andrew Try.

**21/18 Notification of any other business**

There was none.

**22/18 Notification of any interests**

There was none.

**23/18 Minutes of the Audit Committee meeting held on 7 March 2018**

The minutes were approved and signed by the Chair as a correct record.

**24/18 Matters Arising from the Audit Committee meeting held on 7 March 2018**

There were no matters arising that were not already covered on the agenda.

**FOR DECISION/ APPROVAL**

**25/18 Review of Audit Committee Performance**

The meeting considered the performance of the Audit Committee during 2017/18 against its Terms of Reference; this review had been requested by the Committee Chair. The meeting considered the stated purpose of the Audit Committee in its terms of reference:

*'To advise the college corporation on the adequacy and effectiveness of the college's systems of internal control and its arrangements for risk management, control and governance processes, and securing economy, efficiency and effectiveness (value for money).'*

The Clerk assured the meeting that the Audit Committee Terms of Reference were drafted to comply with the requirements of the Audit Code of Practice and highlighted that they were due for biennial review in September 2018. Governors also noted that the Terms of Reference drove the Audit Committee work plan for each academic year. Governors reviewed the terms of reference and agreed that the 11 individual duties detailed within the Terms of Reference had been carried out effectively by the Audit Committee during 2017/18. The composition of the Audit Committee with strong finance expertise within the membership enabled a tight regime of risk and control to be maintained. This control environment was enhanced with the additional assurance provided by: the Internal Audit service, ICCA; the external auditors RSM; and the fact that two members of the SLT were qualified accountants. The meeting spent some time debating how it could demonstrate that it was meeting the efficiency and effectiveness, VFM objective. It was agreed that this could be clearly demonstrated on an operational level with the College closely reviewing all budgets and maintaining tight control on expenditure even though budgets were delegated through the chain of command. The FD also highlighted the internal audit review of procurement which had been undertaken in 2016/17. ICCA had produced reports which contained benchmark data to give the Audit Committee additional assurance. The BCA Financial procedures and Regulations were also reviewed and updated regularly to ensure processes were efficient as well as controls being sufficient.

The meeting also noted an extract from the self-assessment template which had been developed by the Clerk to the Corporation (TR) in November 2017. This template allowed the Clerk to review the Corporation's compliance against its adopted code of good governance, 'The Code of Good Governance for English FE Colleges' for 2016/17. The self-assessment was completed for all 10 elements of the code (as previously circulated to BCA Governors) but only the section in relation to Financial Strategy and Audit was noted by the meeting. Audit Committee members noted that all elements of this self-assessment was RAG rated as green, BCA was fully compliant. Governors were assured that this self-assessment exercise would be undertaken in October 2018 for the 2017/18 academic year. The Clerk also reminded the meeting that the mandatory Annual Audit Committee Report to the Corporation provided a comprehensive overview of the work undertaken by the Audit Committee on an annual basis; this was also copied to the ESFA to accompany the Financial Statements each year. The Clerk confirmed that the draft Audit Committee Annual Report for 2017/18 would be presented to the Audit Committee for outline approval in September 2018; the final version would be submitted to the Corporation in December 2018.

***The Audit Committee AGREED that it was fully meeting its stated purpose. Further review for the 2017/18 academic year would take place in autumn 2018 with the completion of the Annual Audit Committee Report 2017/18 and the Self-Assessment against the Code of Good Governance.***

## **26/18 Internal Audit Visit Reports**

### **• 03.17/18 Corporate Governance**

The meeting considered this advisory report from ICCA (internal auditors) which had been commissioned as the College's governance arrangements had not been subject to an independent review for a number of years. With the Post-16 Area Review now complete, it was considered timely to review the governance arrangements at the College. The audit included a structural review of the governance framework, including the composition of the Board, Standing Orders, Instrument & Articles, membership, skills, attendance, and reporting. A core focus of the audit was on how effectively Governors held senior management to account via the use of informative and accurate management information.

The meeting was pleased to note that the findings outlined in the report were very positive about the governance structure, processes, outcomes and impact at BCA. Minutes and meetings were cited as being 'of a very high standard'. The report contained two recommendations which were both accepted by management. The first was in relation to the need for the Remuneration Committee to meet on an annual basis – this had been flagged as a concern by the Clerk at the start of the visit. Secondly was a recommendation

around Equality and Diversity of the Corporation; this was already an objective on the Governance Action Plan 2017/18 after the governance self-assessment process for 2016/17. The FD commended the Clerk on the strong result and the positive feedback from ICCA after the visit.

***The ICCA advisory visit report 03.17/18 on Corporate Governance was RECEIVED***

- **05.17/18 Learner Records and Funding**

The audit objective for this annual review was noted as ‘to provide management and the Audit Committee with an independent assurance opinion that the control framework in operation in respect of the Education and Skills Funding Agency (ESFA) funding supported compliance with the agency’s requirements as defined within the ESFA funding rules for 2017/18’. Audit Committee was reminded that the control and accuracy of the College’s student data (ILR) was fundamental; it was therefore important that frequent assurance was obtained that systems and controls were robust and adequate to meet ESFA funding regulations. The ICCA review had focused on the arrangements in place to manage and monitor the level of compliance with the ESFA funding regulations 2017/18, and the College’s own internal procedures, in order to provide College management with an early indication of any issues arising in relation to the accuracy of the ILR. Sample checks were completed on student files, using the approach taken by the ESFA Funding Agency’s Shared Services Team (FASST) team (this mirrored the approach that would be taken if the College was selected within the ESFA random sample for funding audit in autumn 2018). Testing had been undertaken across the College’s provision and included the following key areas of delivery: 16-19 year old’s; 16-18 Apprenticeships; Adult Apprenticeships; and AEB Other Provision.

The meeting considered this report and noted that the overall assurance which had been given by ICCA around this area was ‘reasonable’. The design and application of the control environment was judged to be effective with no significant weaknesses; design was deemed ‘good’ and compliance was ‘adequate’. All 8 recommendations (6 medium priority and 2 low) were in relation to application/ compliance and had been accepted by management; remedial action had already been taken to correct the omissions on Learning Agreements and the minor errors in coding and start date. It was agreed that this external assurance supported the mitigation of risks in this area on the College Risk Register.

***The IAS visit report 05.17/18 Learner Records and Funding was RECEIVED.***

- **06.17/18 Follow-Up**

The meeting considered this report and noted that ICCA were able to provide the Audit Committee with ‘substantial’ assurance that progress with implementing previously agreed internal audit recommendations had been timely and effective. The meeting was reminded that ‘substantial’ was the highest grade possible. The report also gave the Audit Committee assurance that the College had reported the status of implementing the recommendations accurately. The follow-up review had considered 13 recommendations from reports 02.16/17 Procurement Policy Review, 03.16/17 Learning Support and High Needs Funding, 04.16/17 Fundamental Financial Controls – management accounts, 05.16/17 Safeguarding including the Prevent Duty and 06.16/17 Learner Records and Funding (ESFA) undertaken by ICCA during 2016/17. The Audit Committee noted and accepted that reports 01.16/17 and 08.16/17 to 10.16/17 did not require follow-up as they had been advisory reports. The follow-up review had found that: 100% of the 13 previously agreed recommendations had been fully implemented by management. The meeting commended this ongoing commitment of the SLT to ensure that audit recommendations were implemented in a timely manner.

***The IAS visit report 06.17/18 was RECEIVED.***

### **27/18 Covenant Review**

The meeting noted a Covenant Review Report provided by RSM UK Audit LLP for Lloyds Bank which reviewed BCA's performance against the bank covenants in place on the Lloyds borrowing at the year-end 31 July 2017. The letter detailed the procedures carried out by RSM as follows:

- i) Checking the calculation that the Total Borrowing Costs of the College in relation to the year have not exceeded 7% of the Total Consolidated Income for that financial year.
- ii) Checking the calculation that the cash inflow from operating activities as at the end of each financial year are less not less than 125% of the Total Borrowing Costs for that financial year (before any adjustments are made for defined benefit pension costs as per FRS102).
- iii) Checking the calculation that the gearing of the College shall not exceed 60% for the financial year ending 31 July 2017.
- iv) Checking that the College has conducted its financial affairs so that the College does not in two consecutive financial years from 31 July 2015 incur an operating deficit as shown in its Financial Statements from such financial years.

The meeting noted the RSM conclusion that *'The results of these procedures are that the College have complied with the covenants as listed above with reference to the financial statements of the College as at the year ending 31 July 2017'*. The FD reminded Audit Committee members that a covenant review was included on the monthly management accounts as a standing item but this additional report separating out debt service cover was required by the College bankers Lloyds.

***The RSM Covenant Review Report was RECEIVED***

### **28/18 External Audit Timetable for annual accounts 2017/18**

SM presented the Audit Plan for the year ended 31<sup>st</sup> July 2018 BCA Financial Statements and the associated Regularity Audit, on behalf of BCA's external auditors RSM UK Audit LLP. Members noted that the audit team for BCA from RSM had already been into BCA to meet with the FD and the Principal to plan the annual financial statements audit and the regularity audit which would take place at the same time. Members were informed that detailed audit planning work would be undertaken by RSM on 13<sup>th</sup> to 16<sup>th</sup> August 2018 and then the audit team would be on site at BCA for just over a week during September 2018 (week commencing 24<sup>th</sup> September 2018). The timetable was for a draft management letter to be discussed at the clearance meeting to enable the audited accounts and management letter to be considered by the Audit Committee on 28<sup>th</sup> November 2018. SM highlighted that RSM Tenon would be providing two separate opinions: one on the Financial Statements and a separate opinion on Regularity assurance. The meeting considered the key risks affecting the audit plan which were outlined within the RSM report (a lot of these were noted as generic risks affecting the FE sector): income recognition; pension scheme liabilities; going concern and the TU funds; and management override of controls. SM informed Governors that RSM would be working with the Finance Director to decide how the restructuring funds from the Transaction Unit would be accounted for. The meeting discussed and agreed the importance of tight ongoing financial control moving forward. The meeting discussed the 'emphasis of matter' that had been included in the going concern section of the BCA Financial Statements 2016/17 to reflect the loan repayment that had been due in December 2018. The Chair sought, and was given, confirmation by SM that the current expectation was that a similar statement would not be required for 2017/18 assuming that the restructuring funds were received by BCA before 31 July 2018. The meeting discussed the impact on the College's cash-flow in spring 2019 and noted that an overdraft would not be required to manage during the period when ESFA

funding was traditionally not scheduled to be paid. SM drew the meetings attention to Appendix D to the report which outlined 'Governance, Control and Independence'. The fees for the three stage process – planning, fieldwork, and preparation of the final report - were noted as £3,350 (this was an increase of 3% on the prior year). SM confirmed that the audit would be conducted via a SharePoint site but that College documents would only be held for a time limited period in order to comply with the new GDPR requirements. The Chair sought clarification from SM on where she perceived any risk around the College achieving a clean audit. SM confirmed that although there were always inherent risks the current management and finance team at BCA comprised of a sensible well informed team who sought specialist advice and support as required throughout the year. She confirmed that the last few years' audits had all gone very smoothly thanks to the clear process followed by BCA finance staff and all involved in the audit. The Chair also sought, and was given, clarity on the level of testing on the control processes at the College during the audit of the financial statements.

- **Letter of Engagement**

The meeting considered and approved the letters of engagement with RSM UK Audit LLP for the Financial Statements Audit and the Regularity Audit 2017/18.

***The timetable for the Financial Statements Audit 2017/18 was AGREED.***

***The letters of engagement with RSM UK Audit LLP for the Financial Statements Audit and the Regularity Audit 2017/18 were APPROVED.***

### **29/18 General Data Protection Regulation (GDPR) Action Plan**

The meeting considered the outline Action Plan which had been developed to ensure that the College met the requirements of the new GDPR which had come into force on 25<sup>th</sup> May 2018. Governors were informed that after further consultation and external research it had been decided that the Finance Director would take on the role of the nominated Data Protection Officer (DPO) for the College; this was a role required under the new legislation. However, the FD would be supported in this role by a number of College Managers with specialist remits including the Director MIS and the Principal. Governors commended the progress in this important area of compliance. It was agreed that the GDPR requirements would stay on the College Risk Register/ Board Assurance Framework and an annual report on GDPR would be brought to the Corporation in September (starting September 2019).

***The GDPR Action Plan was NOTED and RECEIVED. A risk around GDPR compliance would remain on the BCA Risk Register for the foreseeable future.***

### **30/18 Board Assurance Framework and Risk Register Report**

The meeting considered the Board Assurance Framework which clearly detailed the key strategic risks against the four strategic priorities for BCA. This item was now a standing item for consideration at each Audit Committee and Corporation meeting. Governors noted that this document had been updated since last presented to the Corporation in May 2018 and the changes were now clearly highlighted. Governors commended the clarity on risk movement provided by the directional arrows and the use of highlights in the report. The principal informed the Audit Committee members that the ESFA had also praised the clear format of this Risk Register/ Board Assurance Report. The meeting was reminded that any changes to the Risk Register were only made after consideration at the Executive Team (the 4 SPHs), SLT, Audit Committee and then Corporation.

The meeting discussed the following changes and the remaining key risks which were currently rated as 'red' and the ongoing mitigation that was being provided against their crystallisation:

*Risk 1 'Failure to Retain independent Status' (Risk score reduced from 20 'red' to 10 'green' after mitigation):* This change had been approved by the ESFA during a recent Financial Notice of Concern meeting as it was now certain that the College would be in receipt of restructuring funds from the Transaction Unit, probably before year-end 2017/18.

*Risk 2 'LGPS deficit expected to be significant' (Risk score reduced from 20 'red' to 15 'amber' after mitigation):* The meeting was reminded that this risk was essentially outside the control of the College but governors were reminded that the FD had now been given assurance from actuaries and pension fund managers that the future payment profile would be reduced. The exact figures had not yet been confirmed so the risk was still classed as 'amber'.

*Risk 3 'Going Concern issues. Failure to meet income targets' (Risk score reduced to 15 'amber' after mitigation):* This had reduced following Ministerial approval of the College application for restructuring funds from the Transaction Unit.

*Risk 4 'Quality and Funding issues around Apprenticeship provision (Risk score reduced from 15 'amber' to 10 'green' after mitigation):* This had reduced following publication of NARTS data in April 2018 which showed the College WBL performance was in the upper quartile nationally. The Principal informed the meeting that in the current week the College had received confirmation that a further growth request of £32,000 to the Apprenticeship contract had been approved.

*Risk 8 'Insufficient capital investment in the listed assets, specifically the mansion house' (Risk score of 20 'red' after mitigation):* The meeting was reminded that the issue of securing the requisite funding for the future maintenance of the heritage assets was still very uncertain. Restructuring funds could not support the heritage assets at BCA.

*Risk 10 'Insufficiently developed succession planning/ staff retention strategies (Risk score of 20 'red' after mitigation):* The FD reminded the meeting of all the recent initiatives put in place by the HR team which did not cost a great deal of money but attempted to provide additional benefits for staff.

*Risk 17 'Failure to comply with GDPR requirements from May 2018 (Risk score reduced from 20 'red' to 15 'amber' after mitigation):* The meeting was assured regarding progress against the GDPR Action Plan as discussed earlier in the meeting. This would remain on the Risk Register during 2018/19.

***The Board Assurance Framework/ Risk Register was RECEIVED.***

## FOR INFORMATION

### 31/18 Register of Outstanding Audit Actions

Members noted that all of the outstanding recommendations related to internal audit reports; the meeting was reminded that there had been no recommendations from the external audit of the Financial Statements 2016/17. The meeting commended the clear format of the report with RAG ratings highlighting any areas where progress for implementation was running late. The FD reminded Governors that the 'current status' column related to BCA Management's view of progress but that completed recommendations had now been removed as ICCA had completed their follow-up audit of previous years' recommendations. The meeting was also informed that the recommendations from the advisory reviews had also been removed from the report as

they were largely operational; there was now a separate schedule for advisory recommendations which would be reviewed at Executive and SLT level. This separate schedule was noted by the meeting and it would be brought back to Audit Committee on an ad-hoc basis to enable closure to be demonstrated. Members were pleased to note that there were no outstanding recommendations rated 'red' and were assured that the remaining 'amber' recommendations were all moving towards a 'green' classification by the year-end.

***The Register of Outstanding Audit Actions report was NOTED.***

### **32/18 Debtors**

The meeting noted the Debtors Report which was now a standing item on the Audit Committee agenda. Governors were pleased to note the ongoing tight credit control within the College. The Chair sought, and was given, confirmation that no individual debts were causing concern for management. After discussion the meeting agreed that as the Debtors Report was largely operational it should no longer be a standing item at each Audit Committee meeting. A reference to debtors should be included in the monthly management accounts and any areas of concern in relation to debt would be brought to Audit Committee.

***The Debtors Report was RECEIVED.***

***The Debtors Report should cease as a standing agenda item at Audit Committee for 2018/19; a reference to current debt should be included in the monthly management accounts.***

### **33/18 Fraud, irregularity and whistleblowing report**

- Fraud

The meeting noted that there had been no new cases of fraud since the last Audit Committee meeting in March 2018. Members were reminded of the one case of fraud reported to the Audit Committee in 2017/18. This had been a 'bogus supplier' fraud perpetrated against BCA in 2016/17 which had resulted in a £5,324 loss (as reported and minuted in November 2017).

- Corruption/irregularity

The meeting noted the report which was a nil return for the period 1 August 2017 to date.

- Whistle-blowing

The meeting noted the report which was a nil return for the period 1 August 2017 to date.

***The Report was NOTED.***

### **34/18 Applications 2018/19 Update**

The meeting noted a detailed spreadsheet showing applications by curriculum area at 11<sup>th</sup> June 2018 compared with the same point in the prior year. Applications for September 2018 were currently at 1,387 which was 8 higher than at the same point during the prior year. The meeting considered the curriculum areas which were behind compared with the prior year: Agriculture, Art and Design, Early Years, Media, Motor Vehicle and Sport. Governors were reminded that an element of Motor Vehicle provision had now transferred over to Apprenticeships. The meeting was also reminded that Travel and Tourism was not enrolling Year 1 learners in 2018/19, only the 9 Year 2 learners would be on role in order to complete.

***The Applications Report was NOTED***

**35/18 Date and Time of Audit Committee meetings 2018/19**

The meetings were confirmed as:

- Wednesday 19 September 2018 at 4.30pm
- Wednesday 28 November 2018 at 4.30pm
- Wednesday 6 March 2019 at 4.30pm
- Wednesday 19 June 2019 at 4.30pm

**36/18 Any Other Business**

There was no other business the meeting closed at 6.15pm.