



Minutes
Meeting of the Audit Committee
Thursday 29 November 2018 at 4.30pm
Principal's Office

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

The meeting was preceded by a short governors-only meeting (with the Clerk present). Governors discussed the confidential item that would be discussed and minuted under Part 2.

66/18 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. The chair sought specific feedback from the external auditor (SM) that there was nothing she wished to raise with governors in respect of the financial statements audit 2017/18. SM confirmed that the audit had gone well, the College finance team had been well prepared and had responded well to any queries raised by the RSM audit team. Governors discussed the incidence of fraud that would be discussed in detail with management during Part 2 of the meeting.

67/18 Apologies for absence

Apologies had been received from Audit Committee Member, Frank Pitkin who was abroad on business. It was noted that Martin Harrison from internal audit providers ICCA had been due to attend the meeting but College management had stood him down as there were no items to be considered which were within the remit of internal auditors; there had been no internal audit activity to date during 2018/19.

68/18 Notification of any other business

There was none.

69/18 Notification of any interests

There was none.

70/18 Minutes of the Audit Committee meeting held on 19 September 2018

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

71/18 Matters Arising from the Audit Committee meeting, 19 September 2018

- **Update on BCA Landbased Training** (*minute 62/18 page 8*): The Principal gave the meeting a verbal update on progress with the commercial training division of the

College, BCA Landbased Training. Although the income projection would be below the original budget (£330,000) the pipeline was strong; the exact income projection would be recalculated at the mid-year forecast. The meeting noted that a higher margin than forecast would mitigate the slightly lower income.

Noted

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

FOR DECISION/ APPROVAL

72/18 External Audit:

• ***Draft Annual Audit of Accounts and Report 2017/18***

Members considered the final paperwork for the Annual Audit of Accounts provided by RSM UK Audit LLP; the Report and Accounts to 31 July 2018 and the Draft Audit Findings Report ('Management Letter'). SM presented the report and informed Members that the audit had gone well; the Finance Director (FD) and his team had made a valuable contribution to the audit; all requisite information had been readily available and had been shown to be robust and accurate.

The final out-turn in the statutory accounts was an operating surplus of £2.042m (prior year figure was £390,000 deficit). This was noted as being in line with all management account forecasts presented to Governors during 2017/18 (the forecast surplus of £144,000 shown in the management accounts had been increased by grants paid under the restructuring fund). The FD tabled a reconciliation statement which identified the specific adjustments made in relation to the Transaction Unit grant which had resulted in a higher surplus than the £144,000 forecast in the management accounts. Total income for the year had increased to £16.002m compared with £12.957m in 2016/17; ESFA grant funding had increased to £10.829m (an increase on the prior year figure of £10.632m). The meeting noted that there had been a growth in student numbers and expenditure had increased by £613,000 in the year to £13.960m. This was attributed to: an increase in other operating costs of £184,000; and an increase in staff costs of £432,000. The net pension liability at £9.262m (compared with £8.512m at 31 July 2017), was noted and also the fact that this was an element of the accounts over which BCA had no control. Members were reminded that the FD had worked with actuaries to minimise this liability and that at present FRS17 was simply a book entry and was excluded when assessing financial health by both the ESFA and the banks. Governors commended the clear and accurate financial reporting that the Finance Director (RM) continued to bring to the College; the final outturn for the year was exactly as forecast when setting the budget for 2017/18 after the Transaction Unit funding was excluded. SM confirmed that an unqualified audit report would be issued with no issues raised in relation to the 'going concern' status of the College. The meeting considered the notes to the accounts in detail and raised several technical queries which were answered by the Finance Director. Several typographical errors were also flagged by Governors and would be corrected before the final accounts were taken to the Corporation for approval.

• ***Audit Findings Report 2017/18***

Members considered the Final Audit Findings Report for the year-end 31 July 2018 which had been drafted for Governors by the external auditors RSM. Members noted the adjusted and unadjusted misstatements made on the balance sheet which were mostly in relation to treatment of the restructuring funds received from the Transaction Unit in the 2017/18 financial year. SM confirmed that this funding had now been treated correctly from an income recognition perspective. The meeting noted the two recommendations in relation to: the Ardmore Lease; and a vendor bank detail fraud. Management responses were detailed in the report and the meeting noted that processes had been changed

early in 2018 in response to the vendor bank details fraud (as previously reported to Audit Committee). SM confirmed that the number of recommendations (2) would be low when benchmarked against other College Audit Findings Reports. The Audit Committee members were pleased to note that there had been nothing to report around management override of controls or any deficiencies in internal control. The meeting commended the smooth running of the external audit 2017/18 – as in the previous two years - and thanked RSM and the Finance Director and his staff for their considerable input to the process. The Chair sought clarification on whether the process pre-audit could be improved at BCA and SM confirmed that this would not be expected. The FD confirmed that the College objective would continue to be to have the management accounts and trial balance completed before the external audit. SM confirmed that all the required deliverables were in place when RSM came into BCA to start the audit. The Chair thanked SM for the efficient audit process undertaken by RSM and for her clear presentation of the audit findings.

- **Regularity Audit**

The meeting was reminded that the Regularity Audit report from RSM had been considered within the Audit Findings Report and the unqualified regularity opinion was noted. The meeting noted and considered the Regularity Audit Self-Assessment questionnaire; SM confirmed that RSM were content with the College responses.

- **Letters of Representation**

The draft letters of representation (one for the financial statements and one covering the integral regularity audit) were considered and approved as presented. Members noted that these were in the standard format required by the Audit Code of Practice.

It was AGREED that the:

- i) Report and Accounts for the year ended 31 July 2018 be APPROVED and RECOMMENDED to the Corporation for approval (12/12/18).**
- ii) Regularity Audit Self-Assessment Questionnaire be APPROVED and RECOMMENDED to the Corporation for approval (12/12/18).**
- iii) Final Audit Findings Report and Regularity Audit Report from RSM should be RECEIVED and RECOMMENDED to the Corporation.**
- iv) Letters of Representation be APPROVED and RECOMMENDED to the Corporation for approval.**

73/18 Annual Audit Committee Report

The meeting considered the Audit Committee Report 2017/18 which had been considered in draft at the last meeting, (September 2018). The Clerk confirmed that the amendments suggested at the last meeting had been made. After the discussions around the incidence of fraud, it was agreed that the Annual Audit Committee Report should include a generic reference to fraud: *‘The Audit Committee had fully considered any instances of fraud which occurred during the year and nothing had been judged to be material’*. The key performance indicators of the auditors (internal and external) would be completed and appended to the report before it was taken to the Corporation, (12/12/18). See Part 2 minutes; self-assessment of the auditors against their KPIs was discussed.

The Annual Audit Committee Report 2017/18 was APPROVED (subject to the addition of the reference to fraud as highlighted above) and would be signed by the Chair of the Audit Committee. It would be presented to Corporation on 12/12/18 and then submitted to the ESFA with the 2017/18 Financial Statements.

- **Update Audit Committee Self-Assessment**

The meeting noted an updated 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 2017/18. The self-assessment for 2017/18 had been 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 Audit Committee meeting. Audit Committee members noted that all elements of this self-assessment was RAG rated as green, BCA was fully compliant.

The Audit Committee Self-Assessment was NOTED

74/18 Estates Strategy Update

- ***Estate Strategy***

Governors were reminded that part of the Restructuring Facility funding was given to BCA to commission a full estates strategy exercise. This was to enable BCA to explore the potential options for future developments on the campus, including the opportunities to generate receipts from release of land for alternative uses. The Principal confirmed that all aspects of the work were now progressing with the aim of completing the strategy for presentation and review by the Corporation in March 2019.

The meeting noted that various initial surveys had now been completed including a building condition survey and accurate space survey of the whole site. Baseline reviews of landscape, ecology, heritage assets, flood risk, archaeology and topography had been completed to inform the initial review of potential options. Following this initial work the project team had agreed to focus on two key options for the pre-application process which would test the potential for enabling development to support the future plans for the College. An indication of the two options was considered by the meeting and it was noted that the project team had now commenced the more detailed work required to support the two options. The Principal (GM) gave the meeting a short verbal synopsis of benefits and disadvantages of each of the two planning options and their potential impact - both positive and negative - on the heritage campus. The meeting was reminded that the sole objective of this new planning proposal would be to secure enabling development to provide capital funds for the restoration of the Grade 1 heritage assets, including Hall Place, as well as an income stream in perpetuity to provide ongoing income to cover future maintenance costs on the heritage assets.

GM highlighted that alongside the pre-planning work the overall estates strategy document was being prepared which would include a full review of the current estate including space utilisation and maintenance costs. The strategy would consider the implications of the overall College business and curriculum plans and the requirement for space over the next five to ten years. This would then be aligned to the options to allow for both qualitative and quantitative assessment as required by the DfE. Governors noted that the project team was working to an agreed timetable with monthly monitoring meetings. The full BCA estates strategy would be presented to the Corporation in March 2019 before submission to the DfE. The meeting was reminded that the overall estimated budget for the estates strategy work stood at c£400,000, including VAT; this sum had now been confirmed to the DfE and expenditure was being closely tracked by the Project Manager.

The Estates Strategy update was NOTED.

A detailed presentation on the planning options would be considered at the Governors' Strategy Day in February 2019.

- ***Jacob Bancks Room repair project***

Governors were reminded that an element of the Restructuring Facility funding had been provided for the urgent repairs to the Jacob Bancks Room ceiling. The Principal

confirmed that the project was now advancing well, with the tendering underway and the works were planned to commence early in 2019. Governors noted that Small Solutions Ltd had been appointed to project manage the repairs. Following a pre-qualification exercise tenders had been sent to five contractors all of whom had the appropriate conservation experience and had confirmed their interest. The meeting noted that tenders were due to be returned on 26 November and following review a recommendation for appointment would be made to the College management. A listed building planning application had been submitted to RBWM and was currently being considered by officers with a decision deadline of 24 December. The meeting noted an updated programme for the works which demonstrated that the deadline of March 2019 for completion was feasible. Progress was being monitored through regular site meetings. The overall estimated budget for the project currently stood at £278,760, including construction, surveys, fees and VAT.

NOTED

- ***Purchase Order authorisation limit***

The meeting considered and approved a request from the Principal for her Purchase Order (PO) authorisation limit to be temporarily increased while the Estates Strategy work and Jacob Bancks Room (JBR) Repair Project was underway. Governors were assured that all projects would have been tendered and would be in accordance with financial regulations. However the JBR payment for the chosen contractor (post tender) was likely be in excess of £200,000 and the Principal's current limit was £100,000. The meeting agreed to this exceptional occasion for the Principal's PO limit to be raised above £100,000 in view of the timing of payments and the very tight drawdown timescale from the Transaction Unit.

It was AGREED that the Principal's PO authorisation limit should be raised above the current level of £100,000 to enable her to sign off the JBR contractor payments (c£278,000) as an exceptional item.

- ***Residential Strategy***

The meeting noted a recent decision taken by the Executive Team that the College would withdraw from providing residential accommodation for students with effect from the end of the current academic year. The current plan would be to transfer three of the four blocks to the occupancy agreement held with Ardmore Language School (subject to negotiation on the lease type). The three bungalows and one flat currently occupied free of charge by the wardening team would be offered to BCA staff on a key-worker rental basis. Staff in current occupation would be given the opportunity to apply.

The meeting agreed with the rationale as the number of FE students in residential accommodation had been in decline over recent years and the College now had no residential HE students. For the past three years the number of residential students had never exceeded 19 across the 4 residential blocks. The Principal confirmed that all of the students in accommodation for the academic year 2018/19 had home postcodes for which the College provided a daily bus route and that they had a one year tenancy agreement only which expired at the end of June 2019. The meeting noted that the College currently made an estimated loss of circa £35,000 pa on this provision including an opportunity cost of £28,200 from providing wardening accommodation. Audit Committee members sought, and were given, assurance that any Year 1 students currently in residence would be catered for if they needed accommodation for the second year of their course; 19+ learners in an unwardened block and 3 under 18 learners in a flat with wardening. The Principal confirmed that the decision had been explained to all affected learners and parents. The meeting also noted that the current plan was for the College to keep one of the blocks for use by 19+ apprentices and adult learners on land-based short courses; this would be offered on a room only nightly basis. The meeting

commended the likely benefit to the College's financial surplus of this decision which was estimated to be £85,000pa.

The decision to withdraw from residential accommodation for all students was NOTED and fully SUPPORTED.

75/18 Investment Policy

The FD presented a paper which reminded Audit Committee Members of the current investment policy of the College and sought their approval of this moving forward. RM highlighted that as a direct consequence of having been granted funding under the DfE's Restructuring Facility the College's cash position had improved significantly in the last four months and this was expected to continue. The month-end cash balance was not expected to drop below £0.5 million at any time over the next twenty months. However, the members of Audit Committee were reminded that as a result of the grant agreement with the DfE, the bank had withdrawn the College's overdraft facility in its entirety (as expected and agreed). Governors were reminded of the investment section within the College's Financial Regulations which covered: authorisation to invest; short-term investments; and long-term investments. The Chair sought, and was given, further confirmation on how the investment policy would work in practice and what the likely rates would be. RM confirmed that the College now had a new relationship manager at Lloyds Bank

It was AGREED that the existing BCA investment policy should remain in place without amendment.

FOR INFORMATION

76/18 Internal Audit: Progress against recommendations from ICCA advisory reports 2017/18

- ***English and Maths***
- ***Apprenticeships***
- ***Governance***

The meeting noted the detailed action plans which had been drawn up by management in response to the three recent 'advisory' internal audit reports. All of the recommendations – apart from two in relation to Apprenticeship provision - had now been implemented and were RAG rated as 'green'. The Principal assured the meeting that the two 'amber' rated actions – 4.6 and 4.7 on Apprenticeships – would be cleared and reviewed to be 'green' after the December Quality Review Board meetings. The meeting was reminded that progress would be validated by the proposed Ofsted visit to pilot the new Common Inspection Framework (likely to be in early December 2019).

The update was NOTED.

77/18 ESFA Assessment of BCA Financial Health

The meeting noted the letter and the accompanying dashboard from the ESFA which confirmed their assessment of the College's financial health after their review of the financial plan 2017/18 to 2019/20. Governors noted that the ESFA letter had assessed BCA's financial health as Satisfactory for 2017/18 and Good for 2018/19. Members were reminded that, as previously reported, the college's self-assessed grade of Good for 2017/18 had been moderated down due to the restructuring funds being included on the wrong line of the Financial Health assessment; it could not be included to buoy the 2017/18 financial health grade up. The useful dashboard of KPIs was commended which clearly showed the positive distance travelled by BCA in terms of Financial Health.

The ESFA letter and Finance Dashboard for BCA at October 2018 was NOTED

78/18 Board Assurance Framework and Risk Register Report

The meeting considered the Board Assurance Framework which clearly detailed the key strategic risks against the five agreed 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 only required minor changes since last presented to the Corporation in September 2018; the changes were now clearly highlighted. The meeting was reminded that any change to the Risk Register was made after consideration at the Executive Team (the 4 SPHs), SLT, Audit Committee and then Corporation. The meeting discussed the following changes and the key risks which were currently rated as 'red' and the ongoing mitigation that was being provided against their crystallisation:

Risk 2 'LGPS deficit expected to be significant' (Risk score reduced from 15 'amber' to 10 'green' 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 payable after 2020/21 would not be confirmed until mid-2019 at the earliest. RM reminded the meeting that the College's LGPS pension deficit for the financial statements was now at £9.26m (compared with £8.5m for 2016/17 and £10.6m for 2015/16). The meeting was assured that this was in line with levels at other local colleges and so the FD would not be challenging the actuarial assumptions. The meeting discussed the proposed increase in Teachers Pension Scheme (TPS) contributions for employers; these would rise from 16% to circa 23%. Current briefing suggested that this increase would not be funded by central government for Colleges (DfE would be providing some mitigation funding for schools). The meeting discussed the potential impact on the College sector and noted that the increase would also have a large impact within the independent schools sector.

Risk 3 'Going Concern issues. Failure to meet income targets' (Risk score at 10 'green' after mitigation): This had previously been reduced following receipt of restructuring funds from the Transaction Unit. The narrative had been amended to reflect the moderated 'satisfactory' ESFA health grade for 2017/18.

Risk 4 'Quality and Funding issues associated with apprenticeship provision are not addressed' (Risk score at 10 'green' after mitigation): The narrative had been amended to include the Timely Success data at 74% compared with the national average of 59%.

Risk 8 'Insufficient capital investment in the listed assets, specifically the mansion house' (Risk score of 20 'red' after mitigation): As previously discussed in the meeting, 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 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.

The Board Assurance Framework/ Risk Register was RECEIVED.

79/18 Register of Outstanding Audit Actions

Members noted that all of the outstanding recommendations related to internal audit reports. 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; the recommendations would only be deemed to have been completed when ICCA undertook their follow-up audit of previous years' recommendations (in term 3 of 2018/19). 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 report was NOTED.

80/18 Fraud, irregularity and whistleblowing report

- *Fraud/ corruption/ irregularity*

The meeting noted that there had been once case of potential fraud in the current academic year. This item was discussed in detail and minuted in the confidential part 2 minutes of the meeting (see minute 84/18).

- *Whistle-blowing*

The meeting noted the report which was a nil return for the period 1 August 2018 to date.

The Report was NOTED.

81/18 Date and Time of Audit Committee meetings 2018/19

The meetings were confirmed as:

- Wednesday 6 March 2019 at 4.30pm
- Wednesday 19 June 2019 at 4.30pm

82/18 Any Other Business

There was no other business the meeting closed at 6.10pm.