



**Part 1 Minutes
Meeting of the Audit Committee
Wednesday 19 September 2018 at 4.30pm
Principal's Office**

Present:	Neil Dew-Gosling	(NDG)	Governor (<i>Chair</i>)
	Frank Pitkin	(FP)	Governor
	Ian Thomson	(IT)	Governor
By telephone:	Andrew Try	(AT)	Governor
In attendance:	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>)

41/18 Chair's Agenda Item

The management team left the meeting and the Chair sought, and was given, confirmation that there was nothing that the external auditor or other Committee Members wished to discuss under this item. NDG informed the Audit Committee that he would be re-instating the Chair's Agenda item at the start of each Audit Committee meeting to give the Governors and auditors the chance to highlight any issues. SM, as external auditor, confirmed that if there were any issues of concern she would not leave it until an Audit Committee meeting but would flag this immediately with the Chair of the Audit Committee. NDG highlighted that he had met with the Finance Director at the start of the term in his role as Audit Committee Chair which added another layer of governor oversight; this was in addition to Ian Thomson's role as Link Governor for the Finance Team. The Chair sought confirmation from the Financial Statements Audit Lead (SM) that there would not be a need for an 'emphasis of matter' paragraph in the College Financial Statements 2017/18. SM informed the meeting that as the audit had not yet commenced it was too early to comment on this; her current expectation was that it would not be required. The clearance meeting with management post-audit was noted as being on 2nd October.

42/18 Apologies for absence

There were no apologies; Andrew Try was in attendance by telephone conference.

43/18 Notification of any other business

There was none.

44/18 Notification of any interests

There was none.

45/18 Minutes of the Audit Committee meeting held on 20 June 2018

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

46/18 Matters Arising from the Audit Committee meeting held on 20 June 2018

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

FOR DECISION/ APPROVAL**47/18 Audit Committee Matters**

- ***Biennial Review of Audit Committee Terms of Reference***

The Clerk presented the Audit Committee terms of reference for biennial review; this had been updated to comply with the Post 16 Audit Code of Practice (March 2018).

The Audit Committee terms of reference was APPROVED as presented.

- ***Audit Committee Annual Schedule of Business 2018/19***

The Clerk presented the 2018/19 Annual Schedule of Business for approval.

The Annual Schedule of Business 2018/19 was APPROVED as presented.

- ***Draft Audit Committee Annual Report 2017/18***

The Clerk presented a paper outlining the work of the Audit Committee for the Financial Year to 31 July 2018. This would be presented to the Corporation in December 2018 to provide assurance around the Audit Committee's work during the 2017/18 year. Members were reminded that this document had to be submitted to the ESFA with the College financial statements. It was noted that this initial draft would be re-presented for final approval at the November 2018 Audit Committee meeting when the auditor's performance indicators would be agreed and appended to the report. The auditors would be asked to self-assess against the performance indicators in advance of this meeting. Members asked for the report to be amended to include the termly meetings between the Chair of Audit Committee and the Finance Director and the Link Governor meetings held on a termly basis with RM and IT as Link Governor.

It was AGREED that:

- i) The draft Audit Committee Annual Report 2017/18 to be APPROVED subject to the addition of meetings between Finance Director and Chair of Governors/ Link Governor as detailed above.***
- ii) The auditors should self-assess against the annual performance indicators in advance of the November 2018 meeting.***

48/18 Revised financial tender thresholds

The Finance Director presented a revised schedule of tender thresholds authorisation levels which were contained in Appendix 2 to the BCA Financial Regulations. Changes were proposed as follows: capital expenditure up to £50,000 for SLT (from £30,000); competitive quotes IT and building work, all other £25,000 to £50,000 three quotes required (changed from £5,000/ £10,000 to £25,000); competitive quotes for £50,000 to OJEU limits to be approved by Director of Finance and Principal. Governors challenged the rationale for these increases; the meeting was informed that as the College moved into the autumn term there was a 6 month window to access the restructuring funds for the specific campus infrastructure improvements. This would mean that a lot of projects were needing to be underway within a very tight timescale and the low level for competitive tenders would delay the process and create a risk around not drawing down the restructuring funds within the 6 month window. The FD highlighted the need to balance the internal controls with assurance for Governors. Audit Committee members were given assurance that the campus upgrade projects would be conducted efficiently to secure best value for money and there would be strong internal controls on the procurement process. SM (RSM Audit UK LLP) confirmed that there was no 'right' level, it should be set at a level which worked best for the College in its current circumstances whilst ensuring that there was no risk of any 'related party transactions'. Governors asserted the need for a clear audit trail with complete transparency to protect the SLT; there should be a summary of planned costs, budget and actual costs which demonstrated well justified procurement decisions. It was agreed that any individual expenditure over £25,000 should be reported to the Corporation for information.

The revised tender threshold levels were APPROVED as presented.

It was AGREED that a summary schedule of capital works showing planned expenditure, actual expenditure and any updates should be brought to the Corporation meeting on a standing basis during 2018/19.

49/18 Annual Report of the Internal Audit Service 2017/18

In the absence of a representative from ICCA the Finance Director (RM) presented the Internal Audit Service (IAS) Annual Report 2017/18 from ICCA. This contained an unqualified opinion (reasonable assurance) on the College's systems of internal control, governance and risk management. RM reminded the meeting that 'reasonable' assurance was the highest level available; it was either 'reasonable' or 'limited' if fundamental weaknesses were identified. The meeting considered the 'summary of internal audit activity' table on page 4 and noted the number and level of recommendations; for a third consecutive year there had been no high priority recommendations made during 2017/18. RM highlighted the 100% implementation of the 13 recommendations which had been identified by the in-year 'follow-up' work.

The IAS Annual Report 2017/18 was RECEIVED.

50/18 Letter of Engagement with Further Education Partnership (FEP) Ltd

The meeting considered a letter of engagement with FEP for them to develop a fully integrated curriculum planning tool for BCA, as discussed by the Audit Committee in June 2018. This work on the curriculum plan had been identified as a key control and operating performance project by the Exec Team and approved by the last meeting of the Audit Committee. The Principal confirmed that the overall cost of this project would be limited to £15,000 including VAT. The meeting noted that it was hoped that this figure would be recoverable through the Transaction Unit funding for Estates related costs; the Estates Strategy required a curriculum planning model to generate an accurate room utilisation figure for the College. Governors commended this work and asserted the need for a robust curriculum planning model to generate accurate outputs for the College's budgeting and forecasting system. The meeting was reminded of the importance attached to accurate curriculum planning in a recent letter from the FE Commissioner; this had been identified as a major factor to ensure the long-term financial sustainability of colleges. Governors sought, and were given, assurance that the new curriculum planning model would be scaleable and future-proof. The meeting sought a timescale for completion and it was noted that room utilisation data would need to be available for the Transaction Unit Estates Strategy Report in November 2018 but the full working model would be implemented for February 2019.

The Letter of Engagement with FEP Ltd was APPROVED

It was AGREED that MC from FEP Ltd would demonstrate the new curriculum planning tool to the Audit Committee in March 2019.

51/18 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 been updated since last presented to the Corporation in May 2018 and the changes were now clearly highlighted. The FD highlighted that the Risk Register column headings had also been slightly amended to aid clarity. 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 1 'Failure to Retain independent Status' (Risk score reduced from 20 'red' to 10 'green' after mitigation): This change reflected the fact that the College had been in receipt of restructuring funds from the Transaction Unit before year-end 2017/18.

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 informed 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. SM confirmed that as part of the external audit RSM would benchmark the actuarial assumptions used which would give Corporation members additional assurance.

Risk 3 'Going Concern issues. Failure to meet income targets' (Risk score reduced to 10 'green' after mitigation): This had reduced following receipt of restructuring funds from the Transaction Unit. The FD gave the meeting assurance that there would be no pinch-points on cash-flow during Spring 2019 when ESFA funding was not scheduled. The projected cash balance at the end of March 2019 was £320,000 credit and a large ESFA payment would be received in mid-April 2019. SM reminded the meeting that as part of the 'going concern' review within the audit of the financial statements 2017/18, RSM would look forward to December 2019 to review the cash flow forecast and apply appropriate sensitivity testing.

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. The Principal informed Audit Committee that the 'Exec' were currently considering how best to deploy CPD for the SLT and management at the College.

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 that work was still underway against the GDPR Action Plan; this item would remain on the Risk Register during 2018/19 to monitor progress.

The Principal informed the meeting that all of the curriculum and quality related risks on the Risk Register would be reviewed in October 2018 when the final output and success data for 2017/18 was known. Similarly funding related risks would be reviewed after the ILR date at the end of the 6-week period had been reached and enrolment numbers for 2018/19 were confirmed.

The Board Assurance Framework/ Risk Register was RECEIVED.

- **Summary of Current capital projects – first quarter 2018/19**

The meeting noted a schedule of planned campus and infrastructure works which were being funded by the restructuring funds; all of these were based around mitigating any

legionella risks with the water supply in campus. The meeting was reminded that the Transaction Unit (TU) had identified these projects as 'urgent capital works'. The six projects would have a total cost of circa £471,000 and included the following: independent hot water for residential blocks; new showers to residential and staff accommodation blocks; new toilets to the Jersey Yard and Conference Centre; new biomass system for the Jersey Yard; repair of the Mansion water header tank; and resurfacing of the Sports Hall car park. Audit Committee members were reminded that funding could only be drawn-down from the TU once spent and that the final date for claims would be 31 March 2019. This would mean that the timeframe for completion of the projects would be very tight.

NOTED**52/18 Audit of Teachers' Pension Scheme contributions**

The meeting received a report from RSM UK Audit LLP which gave the Corporation Members independent assurance in connection with the Teachers' Pension Scheme contributions which the College had been required to make during the year ended 31 March 2018. A copy of the certificate (the 'EOYC') which detailed the Teachers' Pension Contributions for the year ended 31 March 2018 was noted. The letter and audit findings matrix from RSM were also presented to the meeting. The Finance Director highlighted that this was a very timely and clean assurance from the auditors in this area where tolerances on the detail were extremely low. The meeting asked the Principal to write a note of thanks to payroll co-ordinator Pam Peacock (PP) who had done an excellent job on ensuring this complicated audit was clean and timely for the last three years.

The EOYC certificate 2017/18 was NOTED and RECEIVED.

It was AGREED that the Principal should write a note of thanks/ commendation to PP on behalf of the Governors.

53/18 Monthly Finance Reporting: for discussion

The Chair (NDG) informed the meeting that he had included this discussion item on the agenda following his recent meeting with the Finance Director.

- ***Feedback from Governors***

NDG wanted to clarify that the Management Team felt that they were receiving the correct level of feedback from the Governing Body in response to the monthly management accounts reports which were issued to all Governors by e-mail. The Audit Committee members agreed that the narrative commentary provided with the accounts was helpful. The Finance Director asked the Audit Committee members to consider how the narrative could be improved; he asked for any suggestions to be sent to him after the meeting. AT highlighted the ongoing need for the narrative to focus Governors attention on any areas of strength or weakness which they should be aware of within the detailed accounts. IT suggested that the Finance Director might want to consider the level of materiality before comments were included in the narrative.

- ***Variance reporting – zero based for bottom line***

The meeting went on to discuss the practice used by the Finance Director to present zero-bottom line variance against budget within the monthly management accounts; there was never any variance at an operating level. It was accepted that it was right and proper for audit committee to challenge this practice. RM defended this practice which he had employed during the last two years to engender the full trust and support of the funding bodies and the College bankers, Lloyds; this had enabled him to restore the College's credibility in managing its financial position. The meeting was informed that the Transaction Unit (TU) had also challenged this practice during the very rigorous due diligence process undertaken before restructuring funds were approved and that ultimately they were comfortable with the approach taken. RM informed the meeting that at the end

of each month he had very little room for manoeuvre and there was little value in detailing all small variances; this would also limit any flexibility at the year-end. The meeting was assured that a full mid-year reforecast was undertaken in February of each academic year so the 'performance against budget/ forecast' essentially went back to a zero baseline at that point. Governors expressed concern that the zero-variance bottom line put additional pressure on the FD to hit the financial target at year-end. RM assured the meeting that during the last 2½ years the practice had been challenged but ultimately sanctioned by the ESFA, Lloyds and the TU. He also reminded the meeting that no adjustments to the year-end accounts had been requested by the auditors for at least the last three years and the surpluses reported had matched those expected in the annual reforecasts. This lack of a variance vindicated the approach adopted in the management accounts.

Audit Committee members AGREED to proceed on the basis of zero-variance bottom line reporting but asked that there was greater transparency so that any actual variances were shared with the Chair of Audit Committee (NDG) and the Link Governor for Finance (IT) during their termly meetings with the Finance Director.

- ***Circulation of monthly management accounts***

The Chair sought, and was given, assurance that it was appropriate to circulate the monthly management accounts to all staff via the Staff Handbook. The meeting noted that only a handful of staff accessed this document on a regular basis but it was important that the management accounts were in the public domain and easily accessible. The meeting noted that the monthly management accounts were also circulated to the ESFA, Lloyds, the Transaction Unit, Governors, considered at Senior Leadership Team and copied to all Heads of Department. An abridged version was sent to all budget holders which showed their income and expenditure lines and all actual variances against budget.

The meeting NOTED and APPROVED the existing circulation of the management accounts.

FOR INFORMATION

54/18 LEP Bid for Life Sciences Building

The meeting noted the expression of interest (Eol) that the College had submitted at short-notice in August 2018 for the development of a dedicated Life Sciences Building on the BCA campus. This would support the growing learner numbers and technological training needs of students studying Life Sciences and Education and would support the delivery of the Thames Valley Berkshire's LEP Strategic Economic Plan. The project would be for the construction of a new 400 metre² single storey facility to incorporate flexible teaching and lecturing space, consulting rooms and tutorial space. The building would complement the existing award winning BCA Science building which already provided modern laboratories for practical science work. The Principal informed the meeting that this was a very initial Eol and there was no commitment or financial implications for BCA at this early stage. This Eol would be taken to the Corporation on 26th September for information. The meeting discussed the high demand for the College Level 3 Health and Social Care provision: this was now seen as a route into nursing via a higher level apprenticeship being offered by a number of universities. The Principal informed the meeting that the BCA H&SC Course included compulsory modules on medication, infection control and anatomy and physiology which were the 3 key modules required for progression to Higher Education. It was also noted that following the submission of the Eol the LEP had put the College in contact with Berkshire Care who would partner the College in developing the bid.

The Expression of Interest for the Life Sciences Building was NOTED.

55/18 Salix Energy Efficiency Loan Scheme (SEELS)

Members noted that in a bid to achieve improved energy efficiency across campus, the Estates Department were pursuing an LED lighting refit project which would cost circa. £170,000. However, capital for this project could be borrowed from a DfE sponsored loan scheme (SEELS). Initial surveys of existing fittings had already been performed and energy and cost savings modelled. The Estates Department was now creating an Invitation to Tender for no less than three contractors to maximise cost and energy savings within the budget. Once a tender was chosen, this would form the basis of an application to Salix Finance for a 0% interest loan. The meeting was assured that an LED refit project would go ahead if and only if the project forecast demonstrated a payback within 5 years (achieved through saved electricity). Audit Committee members commended this move forward with the sustainability agenda at BCA. The Principal highlighted that the possibility of the College entering into a loan agreement with Salix Finance had already been cleared with Lloyds Bank and DfE (TU) approval was also likely as SEELS was a DfE sponsored scheme. This item would be taken to the Corporation for approval on 26th September 2018.

NOTED

56/18 Post-completion checklist for restructuring funds.

The meeting noted the post-completion checklist which detailed all the actions required after the College had received the restructuring funds from the Transaction Unit in July 2018. Governors commended the clear format showing the split between one-off requirements and ongoing actions and monitoring requirements. The Chair sought clarification on what would be the most onerous task within this list; RM confirmed that the update to the CFADs financial modelling tool to generate a revised 36 month forecast would be time consuming.

NOTED

57/18 Register of Outstanding Audit Actions

Members noted that all of the outstanding recommendations related to the internal audit report on Learner Records and Funding. The meeting was reminded that there had been no recommendations from the external audit of the Financial Statements 2016/17. 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. 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 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 and brought back to Audit Committee on an ad-hoc basis to enable closure to be demonstrated.

The Register of Outstanding Audit Actions report was NOTED.

58/18 Debtors

The meeting noted the Debtors Report for the last time as a standing item on the Audit Committee agenda. Members were reminded that Audit Committee had agreed that 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.

59/18 Local Government Pension Scheme Deficit 2017/18

The Finance Director presented a detailed report which showed year-on-year comparisons for all elements of the LGPS pension deficit. This compared 2018 values with 2017 original figure as well as the 2017 revised (after the assumptions were challenged). As previously discussed in the meeting the 'accounting' (as opposed to actuarial) deficit had increased by £0.75 million in 2017-18, to £9.26 million. However, the FD would not be challenging the assumptions as they appeared reasonable and the in-year movement was in line with other Colleges.

NOTED

60/18 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 June 2018.

- Corruption/irregularity

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

- Whistle-blowing

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

The Report was NOTED.

61/18 Date and Time of Audit Committee meetings 2018/19

The meetings were confirmed as:

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

62/18 Any Other Business

- **Enrolment 2018/19**

The meeting commended the regular e-mail updates that they had been receiving on the numbers enrolled for September 2018 and the current level of applications. The growth in 16-18 learner numbers that the College had seen compared with the prior year was very positive in light of the flat demographic profile of this age group.

NOTED

- **Agenda items for next meeting**

The meeting asked for an update on the performance of BCA Landbased Training since the College had bought the assets of the company in August 2018.

There was no other business the meeting closed at 6.45pm.