



Minutes
Meeting of the Audit Committee
Wednesday 6 December 2017 at 4.30pm
Principal's Office

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| Present: | Gareth Osborn | (GO) | Governor (<i>Chair</i>) |
| | Frank Pitkin | (FP) | Governor |
| | John Petitt | (JP) | Governor (<i>Acting Chair</i>) |
| | Andrew Try | (AT) | Governor |
| Apologies: | Neil Dew-Gosling | | 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 |
| | Scott Winter | (SW) | ICCA (<i>Internal Auditors</i>) |

49/17 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 2016/17. 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.

50/17 Apologies for absence

Apologies had been received from Neil Dew-Gosling.

51/17 Notification of any other business

There was none.

52/17 Notification of any interests

There was none.

53/17 Minutes of the Audit Committee meeting held on 4 October 2017

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

54/17 Matters Arising from the Audit Committee meeting held on 4 October 2017

- **ICCA Review of Apprenticeships** (*minute 40/17 page 2*).

Governors sought an update on the internal audit review of apprenticeships delivery at BCA. It was confirmed that this was still ongoing as College management were currently working on a contribution analysis for this area which was proving more problematic than first envisaged. The Finance Director (RM) gave the meeting a verbal update and informed the meeting that a further verbal update would be provided in March 2018 with the final report and action plan brought to Audit Committee in June 2018. Governors

challenged on this lengthy timescale and sought clarity on why an outcome was not required before June 2018. RM assured the meeting that College management had already implemented an action plan as a result of the first part of this ICCA review, the follow-up Part 2 review was scheduled to be undertaken by ICCA in spring 2018 with a final report available for June 2018 Audit Committee. The Chair sought, and was given, confirmation that the College was on track with its forecast growth for apprenticeships 2017/18. The Principal confirmed that growth requests had been met and the College was on track to deliver.

Noted

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

FOR DECISION/ APPROVAL

55/17 External Audit:

• ***Draft Annual Audit of Accounts and Report 2016/17***

Members considered the final paperwork for the Annual Audit of Accounts provided by RSM UK Audit LLP; the Report and Accounts to 31 July 2017 and the Draft Audit Findings Report ('Management Letter'). SM presented the report and informed Members that the audit had gone well; the Finance Director (RM) and his team had made a valuable contribution to the audit; all requisite information had been readily available and was shown to be robust and accurate.

The final out-turn in the statutory accounts was an operating deficit of £390,000 after depreciation, disposal of assets and pension charge. This was noted as being in line with all management account forecasts presented to Governors during 2016/17 (the forecast surplus of £129,000 shown in the management accounts had been reduced by the FRS17 pensions charge). Total income for the year had increased to £12.957m compared with £12.694m in 2015/16; EFA and SFA grant funding had increased to £10.632m (an increase on the prior year figure of £10.326m). The meeting noted that there had been a growth in student numbers and expenditure had increased by £94,000 in the year to £13.347m. This was attributed to: a decrease in other operating costs of £322,000; offset by an increase in staff costs of £492,000. The net pension liability at £8.512m (compared with £9.01m at 31 July 2016), 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 2016/17.

SM confirmed that an unqualified audit report would be issued; however, there would need to be a modification statement in the report around 'going concern'. The meeting considered this technical issue around the 'going concern' statement. The meeting noted the following position: BCA's accounts for 2016-17 would be signed in mid-December 2017; a three-year loan that the College took out in November 2015 was scheduled for repayment 11 months after the likely signing date of the 2016/17 accounts. As this was within a year of the accounts signing, RSM - as external auditors - were required to include a note in the report to say that there was material uncertainty associated with going concern. The FD informed the meeting that Lloyds bank had offered to move the repayment date to January 2018 to avoid the requirement for a modification. Governors commended this as an indication of the banks confidence in College management.

However, SM asserted, and the meeting agreed, that this would be 'artificial' and that the identified risk around going concern would still exist. SM assured governors that this would not amount to a qualification of the accounts; RSM would instead issue a 'modified' opinion. SM highlighted the detail that the College would need to provide in order that RSM's opinion should be modified and not qualified:

- Details as to the circumstances that lead to uncertainty i.e. when the loan falls due and how much will be payable on that date.
- The College plans to deal with the loan repayment.
- Why BCA was a going concern; what can happen over the next 12 months.
- What the material uncertainty was in relation to the above.

The meeting noted that in response to the evidence RSM would: amend their note in the accounts; change the wording in their Audit Findings Report; and amend the Letter of Representation that would be signed by the Chair and Principal (as College Accounting Officer). The Audit Committee members recognised the need for a material uncertainty note and was given confirmation on the necessary amendment to the wording of the 'Going Concern' Note 1 on page 25 of the Financial Statements. SM highlighted that this 'going concern' modification would also be referenced in the Letter of Representation. Governors confirmed that they had been fully aware of the loan re-payment and the full financial position of the College; Audit Committee members agreed that they were content to accept this modification.

- ***Audit Findings Report 2016/17***

Members considered the Final Audit Findings Report for the year-end 31 July 2017 which had been drafted for Governors by the external auditors RSM. Members noted the low level of adjustments made on the balance sheet (£22,000) and the positive Final Audit Findings Report with no management recommendations. 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 2016/17 – as in the previous two years - and thanked RSM and the Finance Director and his staff for their considerable input to the process.

- ***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. In discussion the Finance Director highlighted that the College would be doing more to highlight the implications of the Bribery Act 2010 with all staff; Governors sought, and were given, assurance of the comprehensive BCA policy on this matter. RM highlighted that management would be simply reminding staff of their obligations.

- ***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. SM highlighted the reference to the change in actuarial assumptions around the LGPS; RSM were content that these new assumptions met sector benchmarks. The meeting was reminded that a reference to the modified opinion around going concern would be included in the final version of the Letters of Representation.

- **Letter of Engagement**

The meeting considered and approved an updated letter of engagement with RSM LLP. The Audit Committee also reviewed the detailed Terms and Conditions to accompany the RSM letter of engagement.

It was AGREED that the:

- i) **Report and Accounts for the year ended 31 July 2017 be APPROVED and RECOMMENDED to the Corporation for approval (13/12/17).**
- ii) **Final Audit Findings Report and Regularity Audit Report from RSM should be RECEIVED and RECOMMENDED to the Corporation.**
- iii) **Letters of Representation be APPROVED and RECOMMENDED to the Corporation for approval.**
- iv) **Letter of Engagement be APPROVED and RECOMMENDED to the Corporation.**

56/17 Annual Audit Committee Report

The meeting considered the Audit Committee Report 2016/17 which had been considered in draft at the last meeting, (October 2017). The Clerk confirmed that the amendments suggested at the last meeting had been made; the positive Ofsted outcome during the year had been included as a source of external validation. 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, (13/12/17).

The Annual Audit Committee Report 2016/17 was APPROVED and would be signed by the Chair of the Audit Committee. It would be presented to Corporation on 13/12/17 and subsequently submitted to the SFA with the 2016/17 Financial Statements.

57/17 Internal Audit Visit Reports

- **07.16/17 MIS – Structure and Efficiency of Systems and Processes**

The meeting considered this advisory report from ICCA (internal auditors) which had reviewed the structure of the MIS team at BCA and supporting processes and procedures. Governors were reminded that this review had been undertaken in July 2017 as a follow-on from the Support Cost reviews undertaken by ICCA during 2015/16 and 2016/17. These reviews had identified that the MIS staffing level at BCA was at one of the highest levels that ICCA had seen in the sector. In 2016/17 MIS and admissions staffing costs totalled £246,000 which was £79,000 higher than the median sector benchmark. The meeting noted the detail of the report and the action plan in relation to: On-line admissions interface with Unit-E; Learning Agreements; Report Writing; Curriculum Planning Timetable; Examination and Access Arrangements; and running the ILR, ALFIE and cost recovery. It was noted that management had not accepted the recommendations to cease the re-issue of Learning Agreements and to run the ILR monthly rather than weekly. The Principal asserted the importance of these two actions in keeping close control of data and any associated financial implications. The meeting discussed the 'unusual' cohort at BCA and the very complicated exam management required for a large number of learners with additional needs including designated high needs learners. SW asserted that the report highlighted the factual observations why the College was 47% above the median in terms of MIS costs but agreed that it was a management decision whether to implement all the recommendations. The Principal commended the report for highlighting the areas of concern and possible areas for cost-saving but she asserted that this would not be an area for priority action as to a great extent these additional costs were justified.

The ICCA advisory visit report 07.16/17 on MIS Structure and Efficiency was RECEIVED

- **01.17/18 Strategic Review of maths and English**

The meeting considered the advisory review of maths and English which had been undertaken by ICCA during October 2017. The objective of this review had been to review the delivery model for maths and English and the effectiveness of the resources deployed in driving up numbers of learners achieving maths and English qualifications. The review had considered: attendance at English and maths provision; delivery of functional skills to apprentices; the delivery model (assessment, hours planned, timetabling etc.) for English and maths; and, the return on investment. Members were reminded that the Ofsted inspection in March 2017 had highlighted the need for BCA to improve the quality of teaching learning and assessment (TL&A) in GCSE maths. The meeting noted the positive overall conclusion within the ICCA report:

'The College had undertaken a number of actions during the past two years to improve attendance. The College has undertaken a number of actions during the past two academic years to improve attendance and achievement in English and maths. Measures include increased GCSE delivery hours, implementing a revised staffing structure, tighter attendance monitoring and a strong CPD programme. It is anticipated that these measures will have a positive impact on student progress and success in 2017/18. Through improvements in the quality and consistency of target setting in 2016/17 and the introduction of detailed skills tracking, the College is able to demonstrate an improvement in the development of individual student's English and maths skills. This was recognised by Ofsted in the inspection which took place in March 2017. Actions for further improvement are identified in the draft QIPs for English and maths. Further work is currently being completed on the QIPs to ensure that outcome targets are SMART. It is recommended that achievement milestones should be added to the QIPs and that progress against the development points should be monitored and reviewed in special performance monitoring meetings on a half termly basis.'

The meeting considered the detailed Action Plan for ongoing improvement in this important area of the curriculum. This contained 8 detailed recommendations, all of which had been fully accepted by College management and would form the basis of the Quality Improvement Plan 2017/18 for English and maths departments. Members sought, and were given, assurance that these recommendations would be tracked and monitored by Audit Committee through the Register of Outstanding Audit Recommendations.

The ICCA advisory visit report 01.17/18 on the delivery of maths and English at BCA was RECEIVED

- **Preparation for Introduction of General Data Protection Regulation (GDPR)**

The Principal introduced the generic action plan which ICCA had provided to ensure that the College was prepared for the introduction of the GDPR on 25th May 2018. Governors discussed the new regulation and the need for the College to demonstrate progress towards implementation of what was required under GDPR. The meeting agreed that the generic action plan would need more work to make it specific and pertinent to BCA and asserted the need for the risks around GDPR be included on the Risk Register as a 'red' risk. Governors were assured that management were giving this new area of legislation due attention.

The meeting RECEIVED the generic GDPR action plan provided by ICCA and it was AGREED that:

- i. further work was required to make this action plan specific to BCA; and***
- ii. GDPR should be included on the BCA Risk Register/ Board Assurance Framework as a 'red' risk before being presented to Corporation (13th December 2017).***

FOR INFORMATION

58/17 Disaster Recovery

The Principal presented the draft College 'Critical Incident Management Plan' which had been drafted by a specialist company, Risk Support Services Ltd, in collaboration with the Colleges Health Safety and Wellbeing Manager. Governors noted that access to this specialist report writing had been provided on a free-of-charge basis by the College's insurance brokers. Audit Committee members were informed that this document was still a work in progress and would be finalised over the next couple of months. The Chair sought clarification on whether this document was required by the College insurers; RM confirmed that it was not a requirement but would be seen as good practice.

The Critical Incident Management Plan (CIMP) was NOTED. A verbal update would be brought to the next meeting of the Audit Committee and the final CIMP would be presented to Audit Committee when available.

59/17 Departmental Contribution Analysis

The Finance Director (RM) tabled a report which provided a first draft of contribution by teaching programme and department (for 2017/18) using the '4Cast' curriculum tool and the finance budget model. RM confirmed that for the present model, 'contribution' was defined as EFA income less direct pay costs. The report was noted and the fact that there was a lot of additional development needed to this model. This would include: extending income to other sources of funding e.g. local authority; gross up the costs in forecast to reflect total hours (not just teaching hours); build in other non-pay direct costs; add in pay costs for support departments; and sort out any anomalies in the table. Governors sought clarity on what level of contribution in terms of a percentage was required to cover all the overheads but this information was not available at this stage. The meeting noted that HoDs did not have access to this information; they were aware of their income lines and some costs. The contribution table would be refined further before it was taken down to HoD level as a management tool. The meeting noted the report and commended the increased management control around curriculum planning, forecasting and budgeting.

The report was NOTED; an update would be provided for the June 2018 Audit Committee meeting.

60/17 Update on Transaction Unit work

The Principal (GM) gave the meeting an update on current progress with the application to the Transaction Unit (TU) for Restructuring Funds. It was noted that the scope of the required Due Diligence (DD) work had been agreed earlier in the day during a telephone conference. Audit Committee noted that RSM would be undertaking the DD work on behalf of the college; there would be no conflict with the external audit work as it would be a completely separate staff team working on the DD. The current timeline was for BCA's proposal to go to the February 8th 2018 TU Panel; this would require all paperwork to be submitted by 25th January. The meeting noted that the TU required a detailed implementation plan (currently at 167 pages) and a complex financial model to be completed. GM assured the meeting that the work was progressing well; BCA had several detailed strategy documents which had been updated over the last few years which had provided the basis for this document. The FD was also making good progress in completing the lengthy TU financial modelling tool.

Governors sought clarity on possible blocks to the College securing funds from the TU and the main one of these was highlighted as the possibility that the TU would only offer the College a loan rather than a grant. The Principal assured the meeting that all arguments were being made to ensure any funding was in grant format, even if it was conditional on re-payment if the College secured large-scale capital funds from land disposal.

The verbal update on the application to the TU was NOTED; a progress report would be taken to the Corporation meeting on 13th December 2017.

61/17 ESFA Assessment of BCA Financial Health

The meeting noted the dashboard from the ESFA which confirmed their assessment of the College's financial health after their review of the financial plan 2017/18 to 2018/19. Governors were reminded that the ESFA had assessed BCA's financial health as Inadequate for 2016/17, Satisfactory for 2017/18 and Satisfactory for 2018/19 (last two based on the financial plan). This useful dashboard of KPIs was commended which clearly showed the positive distance travelled by BCA in terms of Financial Health.

The SFA Finance Dashboard for BCA at November 2017 was NOTED

62/17 Board Assurance Framework and Risk Register Report

The meeting considered the College Assurance Framework and Risk Register report which clearly detailed the key strategic risks against the four strategic priorities for BCA. Audit Committee members noted that this had been updated since the last Audit Committee meeting in October 2017. The Principal also reminded the meeting that this key document was presented to the ESFA at the monthly monitoring meetings.

The meeting discussed the following 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 of 20 'red' after mitigation): The Principal asserted the need to keep this risk as 'red' due to the ongoing uncertainty about the planning application and asset disposal.

Risk 2 'LGPS deficit expected to be significant' (Risk score of 20 'red' after mitigation): The meeting was reminded that this risk was essentially outside the control of the College but governors were given assurance that College management were doing all possible to mitigate the increases and any future demands for 'top-up' payments. As previously advised the FD was continuing to work with other local FE College Finance Directors to challenge the actuarial assumptions and to minimise any actual short-term financial impact on the College.

Risk 7 '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 following the call-in of the planning application for the care village at BCA to a Planning Inquiry.

Risk 9 'Insufficiently developed succession planning/ staff retention strategies (Risk score of 20 'red' after mitigation): The meeting noted recent CPD and management training programmes which had been run in-house to ensure that staff succession planning and the opportunity for internal promotion was catered for. Governors were reminded of the more limited opportunities for internal promotion within a small College like BCA; there were actually only 9 senior management roles. 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 provided benefits for staff.

The Board Assurance Framework/ Risk Register was RECEIVED.

63/17 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 2017/18). 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.

64/17 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 positive movement in aged debt and the progress made with tightened credit control within the College. The FD (RM) commended the Finance Team staff continuing to focus on this area and assured members that he reviewed the detail of the debtors' report with the Finance Manager on a fortnightly basis. RM highlighted the large debt in relation to High Needs element 3 funding from local authorities, which was currently at £265,864. The meeting was assured that it was expected that this 'element 3' payment would be received before the Christmas 2017 break.

The Debtors Report was RECEIVED.

65/17 Fraud, irregularity and whistleblowing report

- Fraud

The FD updated the meeting on a recent incidence of fraud which had occurred in early November 2017 when the College made a payment, value £39,000, to a bogus supplier. The FD assured the meeting that he had investigated the sequence of events in detail. RM informed Governors that he had concluded that the Finance Team at BCA had carried out all the checks that would be expected of them when they were advised that the details of the bank account to which the payment was to be made had been changed. The meeting noted that the fraud was quite sophisticated, in that the fraudster hacked into the authentic supplier's e-mail account and was able to send messages as if they were coming from the College's normal contact. It was also noted that the FD believed that BCA's supplier could have been a bit more forthcoming than they were when members of the finance team spoke to them on the phone to check details of the change, and that this did not help the team to identify the fraud. Audit Committee noted that the FD had been advised by the bank that the payment went to a 'Lloyds Retail' account and that a total of £33,676.83 had been recovered and would be credited to BCA's account within the next two weeks. RM confirmed that the excess for external crime under the College's insurance policy was £5,000 and he would, therefore, not be pursuing a claim for the £5,324 loss.

Governors sought clarification on whether details of recent frauds were shared between Colleges as a potential warning; RM confirmed that anecdotal stories were often posted

on the Finance Directors database to flag current scams and potential fraudsters. ***The meeting suggested that RM post details of this recent fraud perpetrated against BCA on the FDs database.***

- 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.

66/17 Date and Time of Audit Committee meetings 2017/18

The meetings were confirmed as:

- Wednesday 7 March 2018 at 4.30pm
- Wednesday 20 June 2018 at 4.30pm

67/17 Any Other Business

There was no other business the meeting closed at 5.55pm.