COLLEGE BOARD OF GOVERNORS

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 22 SEPTEMBER 2015

PART I

PRESENT:	C Partridge	Governor (Chair)
	M Wesson	Governor (staff)
	S Turton	Governor
	P Bird	Governor (staff)

IN ATTENDANCE:
A J Oaks (Clerk to the Governors)
T Johnson (VP Corporate Services)
L Miah (Director of Finance)
D Watson (GT UK)
J Creed (ICCA)

APOLOGIES

15.55 There were no apologies.

DECLARATION OF INTERESTS IN ANY AGENDA ITEM

15.56 The Chair reminded members of the requirement to declare any financial or personal interests in any agenda items. C Partridge's standing declaration in respect of KPMGs provision of audit services to other colleges in the region was noted.

MINUTES

15.57 The Minutes of the meeting held on 2 July 2015 (Parts I and II) were agreed as a true and accurate record and were signed by the Chair.

MATTERS ARISING

15.58 The Committee received a list of actions arising from previous meetings. It was noted that the majority of actions had been addressed and two formed future agenda items. With regard to 15.37 and the reporting of the robustness of data systems across the College, it was agreed that this would be the responsibility of the VP Funding, Data and Compliance.

15.59 With regard to the preparation of the Committee's Annual Report to the Board, the Chair emphasised the need to draw on other areas of assurance from across the college, including the KIS data, risk management and Board Assurance Framework. It was agreed that the Chair and Clerk would liaise to produce the report for consideration by Committee at its next meeting, prior to presentation to the Board. The Clerk reiterated that it was the responsibility of the Committee to provide assurance to the Board of the internal controls in place in order for the Corporate governance statement within the Financial Statements to be signed off.

INTERNAL AUDIT REPORTS

Fundamental Financial Controls - Payroll

15.60 The Committee received the report following the review of Payroll which provided substantial assurance with one low priority (housekeeping) recommendation which the VP Corporation Services believed had been completed. This would be confirmed within the Clerks follow up report to the next meeting. ICCA assured the Committee that identifying one low priority recommendation from the substantive testing undertaken demonstrated there were no significant issues to be concerned with. The Committee discussed the findings of the review and asked questions to satisfy themselves of improvement actions being taken. The Chair commented that the report was very positive, particularly when taken in the context of the large area of spend.

The Report was noted and received.

Follow Up

15.61 The Committee received the Follow Up report from ICCA, summarising the audit reviews undertaken in the previous year. The report provided substantial assurance, findings indicating that all 15 recommendations had been fully implemented. ICCA were pleased with the report, which reconciled with the Clerk's independent report to members.

15.62 In response to a question from the Chair on the college's response to implementation in comparison to other colleges in the sector, ICCA confirmed that the College responded extremely well in implementing recommendations, which was on ongoing historical trend. S Turton agreed that the report was very positive, but questioned whether there was any value to be gained from analysing the results of an impact assessment. Discussion took place with regard to ways in which the Committee might seek further assurance in terms of value added and agreed this might be an area it wished to consider. J Creed commented that subject to the level of risk and priority of the recommendations made, the Committee may wish to seek further reports or assurance from management, which confirmed the necessity for the Annual Plan to focus on the areas of highest risk.

The Report was noted and received.

SLA Advisory Report – Delivery of Outstanding Customer Service

15.63 Following a review of Service Level Agreements within three support departments, three advisory recommendations had been made. The findings of the review indicated that whilst systems were in place, there was some inconsistency with regard to application across the departments reviewed in respect of format, knowledge and understanding of the process. Whilst SLAs were monitored at Performance review meetings, there appeared to be no evidence of the framework being embedded. The findings were discussed in detail, the VP Corporate Services providing further information regarding management's responses and proposed actions.

15.64 In response to further questions regarding the timescale proposed for implementing the recommendations, the VP stated that due to the large number of support departments, he believed May 2016 to be reasonable as it would allow the work to be completed by the relevant Heads of department before business planning round three. He added that the Service Department Survey which all staff were asked to complete twice each year had shown that SLAs were valuable and worthwhile. Further to discussion the VP undertook to keep the Committee informed of progress at the Committee's meeting in March 2016.

15.65 The Chair observed that the report was Advisory and commented on the potential to include areas of perceived concern by management within the Annual Plan. This was accepted by management and ICCA.

15.66 Members reflected on the earlier comment by S Turton regarding the value of impact assessments. J Creed stated that he believed this to be fundamental to the purpose of internal audit where management had an opportunity to challenge recommendations made, particularly if they felt the recommendation may not be going to add any real value. Scoping of the areas to be reviewed was therefore crucial to ensure assurances could be obtained on a rotational basis in key areas. The Chair proposed ICCA consider ways in which the Committee might obtain a greater level of assurance with a view to providing a verbal report to the next meeting.

RESOLVED 15.67 **that the VP Corporate Services provide a progress report on implementation of recommendations arising from the SLA report to the March 2016 meeting;**

RESOLVED 15.68 **that ICCA propose ways in which an impact assessment might provide additional assurance to the Committee**

The VP Access to Leaning, P Briscoe, joined the meeting.

The Chair proposed the Committee refer to the Clerks report at Item 11 of the Agenda, and to the recommendation arising from the audit of ALS, reported to the Committee in July.

15.69 The Chair explained that the VP had been invited to the meeting in the absence of the VP Funding, Data and Compliance to provide further information in relation to the recommendation and management response arising from the ALS review. The VP explained that the review had not taken into account the legislative changes that had taken place in September 2014 around the work undertaken with Local Authorities. Consequently the College had responded accordingly to SFA requirements. The VP stated that the work with the Local Authorities was very positive. Following the brief, the Committee were content to accept the recommendation as fully implemented.

The VP Access to Learning left the meeting.

ANNUAL INTERNAL AUDIT REPORT

15.70 The Committee received the Annual Internal Audit Report for year ending 31 July 2015. J Creed reminded the Committee that in line with the Joint Audit Code of Practice the requirement to submit the report to the SFA had been removed and replaced with the requirement for the Committee to submit its own Annual Report once approved by the Board. The Committee's opinion on the College's internal controls would include, amongst other areas of assurance, assurances gained from the Annual Internal Audit report.

15.71 Attention was drawn to the assurance opinion for 2014/15 which stated that '*based on the work undertaken during the year and the implementation by management of previous audit recommendations, we can provide management and the Corporation with reasonable assurance that Barnsley college's systems of internal control, governance and risk management were operating adequately and there were no instances where any breakdown of control resulted in a material discrepancy. In our opinion, the College has adequate and effective management, control and governance processes in place to manage the achievement of its objectives*'.

15.72 The summary of the opinion components was also highlighted, J Creed commenting that the Committee should note that with respect to internal controls, from a total of 10 assurance reviews which covered a range of key systems, areas and controls, 8 substantial assurance opinions had been issued, one of reasonable assurance and one limited assurance. In total only 2 high priority recommendations had been made during the year. Based on the conclusions, the auditors were satisfied that a substantial level of control was designed and operated across the systems reviewed.

15.73 Governors noted the report also highlighted operational assurances provided, concluding that the College has adequate policies, procedures and operations in place to manage its statutory and regulatory obligations.

15.74 An additional four days audit work had been undertaken compared to the Plan which related to the review on Think Development which had been commissioned at the Board's request. The Report also highlighted additional services provided to the College outside of the Plan. Following a question from the Chair, she was satisfied with the level of fees for the additional services.

RESOLVED 15.75 **To recommend the Annual Internal Audit Report be approved.**

SORP POLICY DECISIONS

15.75 The Committee received a report from the Director of Finance, the purpose of which was to seek a recommendation of the accounting policy choices required for the change to the new FE/HE SORP. Under the new Financial Reporting Standard FRS102 applicable from 1 January 2015 the College was required to adopt the new reporting regime with comparative balance sheet and opening comparatives requiring restatement. The Director of Finance explained that the first FRS102 compliant accounts for the college would be for year ending 31 July 2016 and that the SORP was the sectors interpretation of the standards.

15.76 Within the transition a small number of areas of potential change had been identified from which some material changes may arise. Some areas were mandatory, others requiring decision of governors. The Director of Finance commented that whilst she been working with the external auditors to ensure all potential areas of impact had been considered, the impacts presented within the paper had been estimated and could change subject to audit. Some presentational changes were highlighted, for example the I&E account was renamed to 'Statement of Comprehensive Income' (SCI). Further presentational changes were summarised for Governors' information.

15.77 The committee were required to consider choices between an Accruals Model – where the income from capital grants is released to the I&E account over the life of the asset in line with the depreciation charge; and a Performance Model, where the full amount of the grant is recorded as income when all grant conditions have been met. This results in the I&E becoming volatile and the impact of depreciation more significant with no grant release to offset it. Grants received from non government sources would follow the Performance model.

15.78 The Director of Finance explained that whilst the College currently works to an accrual model for all grants, the presentational changes required were quite significant for the college. The value of deferred capital grants at 31/7/2014 was £52.5m of which £5m was non-government grant. Under the revised SORP, the government grant would be transferred from funds to creditors changing net assets from £51.1m to £3.6m. Explaining implications of the changes on the balance sheet, management were therefore proposing the performance model be adopted. The difference between the two models therefore being a decision between a good I&E position or a strong balance sheet. The decision has no impact on EBITDA. A full balance sheet analysis had been provided to inform debate. Following discussion, Governors agreed that the performance model should be recommended.

15.79 In terms of revaluation of assets, three options were open to the college for the treatment of value of fixed assets. Full details were provided; Governors recognised that the revaluation of assets was linked to the policy choice recommendation. As the performance model would be recommended for the treatment of capital grant, governors agreed to recommend no revaluation of assets. It was recommended that on transition the assets should be transferred at historical cost.

15.80 For Holiday accrual there was minimal impact. It was proposed to estimate accrual each year with a 100% data collection required every three years. Governors and auditors were content with this approach.

15.81 In respect of bank loans, the Director of Finance stated that there was no policy choice because the accounting treatment was very different. Financial instruments were classified as either basic or non-basic instruments and in terms of the college loans, these may be classed as non-basic depending on the structure of the debt. Grant Thornton were reviewing the College's loan agreements to assist with determining the classification. With regard to intra-group loans, the Director of Finance referred to the two current intra-group loan balances: one between the college and BCDC, the other between the College and Think Barnsley Ltd. Grant Thornton were currently assessing whether these would be defined as financing transactions. No policy decisions were required in this area.

15.82 In respect of revenue income the SORP provided for a choice between the performance and accrual models for government revenue. Management were proposing the accruals model be adopted as this was simpler in practice and required less resource. Governors were content to agree with the proposal.

15.83 With regard to Pensions, no change to the valuation of the LGPS pension liability recognised in the balance sheet was likely, other than changes in how interest was calculated. Further information was provided. Under FRS102 the bank covenants and SFA financial health performance ratio pension interest was excluded resulting in no significant impact. Details were provided of Investment Property, Governors noting that the nursery cabins at Honeywell generated rental that was outside of the College's normal course of business. The value of the property was not considered material. Basic accounting for leases remained unchanged and in terms of current leases, the photocopier lease would be classed as a finance lease.

15.84 The Director of Finance informed the Committee that decisions on SORP policies would also be sought from the F&R Committee at its meeting on 6 October 2015, with recommendations being made to Board on policy choices. Following Board approval the College's 2014/15 Accounts would be prepared under the new SORP which would be audited by Grant Thornton after the 2014/15 Financial Statements. The report and revised Financial plan under the new SORP would be presented to the F&R Committee at its February meeting. The 2015/16 Management accounts would be reported under the current SORP and any adjustments necessary to align them to the new SORP would be made as part of the year end. Governors noted that the College's banks had both verbally confirmed that the College would not be adversely affected by the SORP in terms of meeting covenants. Whilst the banks had not announced a transition plan, the College expected the banks may rebase the covenants. The Director of Finance remarked that the SFA financial health grade was uncertain with changes expected as a result of the SORP.

15.85 The Chair thanked the Director of Finance for the report, which Grant Thornton confirmed provided a comprehensive summary of the changes. The Chair stated that she was comfortable with the proposals from an audit perspective. Further to discussion it was agreed to recommend the following Accounting Policies:

RESOLVED 15.85.1 **To adopt the performance model for accounting for Government and Capital Grants and for Asset Revaluation;**

RESOLVED 15.85.2 **That there would be no revaluation of assets, and that on transition the assets should be transferred at historical cost.**

RESOLVED 15.85.2 **To adopt the accrual model for revenue recognition for Government Revenue Grants**

RESOLVED 15.85.3 **to adopt the process outlined above for Holiday Accruals.**

RISK MANAGEMENT POLICY

15.86 The VP Corporate Services presented the Policy which had been further amended since approval in July 2015, to reflect the developing Board Assurance Framework and responsibility of the Audit Committee in managing risk. Governors noted the proposed amendments and were content to approve them.

RESOLVED 15.86 **To recommend the Risk Management Policy be approved.**

RISK REGISTER UPDATE

15.87 The VP Corporate Services presented the update to the top level Risk Register, which was subject to further discussion in the context of the proposed Board Assurance Framework. Governors were provided with a summary of changes to the risk register since it was last presented, which included the new risk of Area Based Reviews. The Chair commented that the report was succinct and highlighted the process of risk management very well. In terms of seeking assurances in order to inform the corporate governance statement, ICCA had been tasked with producing a template for a Board Assurance Framework for consideration.

BOARD ASSURANCE FRAMEWORK

15.88 The template was tabled to members, the example provided being a work in progress. The template showed the first of the College's strategic objectives mapped against targets, measures, risk and controls, moving across to a definition of departmental, management and external assurance. Governors discussed the template, members agreeing it offered another dimension against which to identify and monitor risks associated with the college's key strategic priorities. It was agreed that it was difficult to assess the value of the information in its current format in terms of providing independent assurance, this mainly being derived from management based on progress against strategic action plans which were monitored by Governors on a regular basis separately. The Chair proposed the view of the Chair of the Board be sought on the value of the information to be gained from the template before moving further forward on its development.

CLERKS REPORT ON AUDIT RECOMMENDATIONS

15.89 The Clerk's report highlighting progress against all audit recommendations confirmed the status of implementation as previously discussed and reconciled with ICCAs Follow Up report. Governors noted that some recommendations had future deadlines and that the VP Corporate Services would confirm the completeness of the Payroll recommendation.

The Report was noted and received.

COMMITTEE EFFECTIVENESS SURVEY

15.90 The Chair had reviewed the returns made following the survey and concluded that overall the Committee was considered by its members to have appropriately skilled and experienced members and that there were no major concerns. The Chair offered the opportunity for all members to meet with her for a 1-1 on audit matters, and encouraged uptake of any external events that may be offered.

JOINT AUDIT CODE OF PRACTICE

15.91 All members had been issued with the new Joint Audit Code of Practice, effective from August 2015. The only significant change was to the Regularity audit regime, which D Watson confirmed would necessitate Grant Thornton issuing a new Letter of Engagement to the College. The Chair confirmed that the JACOP did not require any changes to be made to the Terms of Reference of the Committee.

OTHER BUSINESS

15.92 D Watson informed members that in the short term Jenny Brown from Grant Thornton would be covering for G Nunns.

There being no further business the Chair declared the meeting closed.

Signed C Partridge (Chair)

Date 1 December 2015