

**MINUTES OF THE AUDIT COMMITTEE
HELD ON TUESDAY 20 NOVEMBER 2018**

PRESENT:

Eugene Sullivan	Chair
Chris Johnson	Member
Louise Mattinson	Co-opted Member
Eshah Tirmizi	FE Student Governor

IN ATTENDANCE:

Jennifer Eastham	Vice Principal: Finance and Corporate Services
Alix Sidall	BDO – External Auditor
Graham Towse	Interim Principal and Chief Executive
Jean Tracy	Clerk to the Corporation
Caroline Wilson	Board Administrator

It was noted that the meeting commenced at 16:58 and was quorate.

The Chair welcomed everyone to the meeting and introduced himself as the new Chair of the Audit Committee. Eshah Tirmizi, the FE Student Governor, was also welcomed to her first meeting of the Audit Committee.

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from John Whittaker.

Apologies were also received from Hamid Ghafoor (BDO – External Auditor), Michael Harding (RSM – Internal Auditor) and Lisa Randall (RSM – Internal Auditor).

2. DECLARATION OF CONFLICTS OF INTEREST

The Chair advised those in attendance that should members of the Audit Committee become aware of any potential conflicts of interest, they should be disclosed at the earliest opportunity during the meeting.

3. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON THURSDAY 24 SEPTEMBER 2018

The Minutes of the Audit Committee meeting held on Thursday 24 September 2018 were **AGREED** as a true and accurate record and were duly signed by the Chair.

4. MATTERS ARISING

There were no matters arising.

5. PRESENTATION ON RISK THEMED TOPIC – BREXIT

The Committee received a presentation on the Risk Themed Topic – Brexit which was topical at the present time.

The Vice Principal: Finance and Corporate Services explained that whilst the impact of Brexit was very much an unknown, the presentation provided members with an overview of the potential themes that could have an impact on the College; these themes had been taken from a Report, included in the papers for the Committee meeting, which had been published by the Association of Colleges (AoC).

The key headlines within the presentation included:

- Access to Education – whilst access to public funding would be available for Higher Education for EU nationals living and working in the UK under the EU regulations in September 2019, the position after this date was unknown. Similarly there was no information available on the recruitment of Further Education students. There was a small number of EU nationals within Blackburn and the College delivered ESOL provision.
- Outward Mobility – would the changes to Erasmus funding affect the opportunity for student trips?
- Recruitment and Retaining Teachers – there were skills shortages within the UK which could become worse. The College employed many staff from the EU.
- Regional Funds – the College was in receipt of funding through the European Social Fund (ESF) and the European Regional Development Fund (ERDF) which supported the delivery of the NEET Moving on Programme and Access to Employment programme, both of which were Government priorities. Towns and colleges also received capital grants through European Funding and the Adult Education Budget was used as match funding through the ESF.
- VAT, State Aid and Procurement – ‘free trade’ rules would change re tendering and there could be complications when purchasing from Europe. There were also risks linked to exchange rates.

The Committee was advised that the AoC would be providing a further update in February 2019 and this would be circulated to members for their information.

Action: Vice Principal: Finance and Corporate Services

On consideration of the presentation, the Chair asked if the College had modelled a worst case scenario based on a SWOT analysis. The Vice Principal: Finance and Corporate Services explained that the main risks to the College would be loss of funding from the EU through projects, EU students not being able to access courses and the recruitment of staff from areas where there were skills shortages. In terms of reducing the cost base as a result, it was noted that staff delivering programmes linked to European Funding were funded through the projects. The Interim Principal and Chief Executive added that the College was not dependent on ESF funding and would be able to reduce costs without impact on curriculum.

6. FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER FOR THE PREVIOUS YEAR

Alix Sidall was welcomed to the meeting and provided an overview of the External Audit work that had been carried out for the year ended 31 July 2018 and explained that subject to the successful resolution of outstanding matters, it was anticipated that BDO would issue an unmodified audit opinion on the College’ Financial Statements for the year ended 31 July 2018. The outstanding matters at the time of the Report included:

- Ensuring that there were no significant clawbacks owing to the Education and Skills Funding Agency (ESFA);

- Final review and approval by the College of the Members' Report;
- Review any subsequent events;
- Management representation letter to be approved and signed;
- Bank Confirmation letter – Barclays.

Members were advised that there were no significant changes to the planned Audit approach and no additional significant risks had been identified.

The Audit Risks, which had been identified within the Audit Planning Reporting June 2018, included Revenue Recognition, Management Override and Going Concern. These were reviewed as part of the Audit plan and no significant issues had been identified. The Committee noted that the Risk Classification for Going Concern had been reduced from 'significant' to 'normal' as the Barclays Loan situation had been resolved. The auditors agreed with management's accounting treatment as at 31 July 2018 and confirmed their view that the accounts disclosure by management in relation to Barclays was appropriate. The Committee further noted that no issues had been identified in relation to the work undertaken on fraud and error, regularity and related parties.

Ms Sidall provided an overview of materiality, for the benefit of the FE Student Governor, and it was reported that there were no changes to the final materiality percentage thresholds and triviality from that reported in the Planning Report. In addition, no audit adjustments had been identified.

Noting the under recruitment, the Chair asked how this could impact on the materiality percentage. Ms Sidall responded that student numbers would not impact on the percentage but could, if flagged, change the going concern risk value from a normal to significant risk through the planning stages of the External Audit work.

The Audit Committee **AGREED** to recommend the Audit Completion Report (commonly referred to as the Audit Management Letter) for the year ended 31 July 2018 to the Board for approval.

7. PROPOSED AUDIT COMMITTEE MEETING DATES

The proposed dates for the Audit Committee meetings were **APPROVED** including a revised start time of 5.00pm.

One member advised that they may need to send apologies as the new dates/time may coincide with meetings they would be required to attend as part of their work commitments.

8. ESFA FUNDING ASSURANCE REVIEW

The Committee was reminded that the College had been notified by the Education and Skills Funding Agency (ESFA) that it had been selected as part of an Assurance Review and a team of External Auditors had visited the College week commencing 17 September 2018. A sample of 160 files had been scrutinised covering all ESFA funded provision including 16-18, Adult, Apprenticeships and bursaries.

Members were advised that the College had been expecting the outcome letter following this Assurance Review by 2 November 2018 however, at the time of reporting, this had not been received. The Committee was further informed that should the External Auditors have identified any major issues then there could be the potential for clawback; it was confirmed that no major issues had been raised at the time of the Review.

The Vice Principal: Finance and Corporate Services explained that the outcome letter was required for the completion of the year-end accounts by the External Auditors, BDO, to provide assurance that no clawback was required. It was noted that the ESFA required the final signed year-end accounts and Audit Letter to be submitted by 31 December 2018.

The Audit Committee noted the update that had been provided.

9. AUDIT KEY PERFORMANCE INDICATORS 2018/19 UPDATE

Following approval of the 2018/19 Audit Performance Indicators by the Audit Committee on 24 September 2018, an update Report was received by the Committee.

The Vice Principal: Finance and Corporate Services talked through the Report and the Committee noted that there were no issues and no deterioration in performance. Key highlights reported included:

- The Financial Health autoscore had improved and for the 2018/19 budget this was scored as 'Good'. The College had received confirmation in writing from the Education and Skills Funding Agency (ESFA) that the College's Financial Health, based on the Financial Plan, was 'Good'.
- The continuation of the compliance checks, undertaken by the Finance Team, identifying areas of processes where staff knowledge gaps existed.
- The Debtor position as at year end was comparable to the prior year.
- The Loan Covenants were being met.
- The draft Accounts showed a healthy cash balance.

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The Interim Principal and Chief Executive noted that the third column heading within the table at point 5 (a) (Staff costs as a percentage of income) of the Appendix to the Report needed to be revised to 'Including Restructuring and Pension Adjustments'.

Action: Vice Principal: Finance and Corporate Services

10. INTERNAL AUDIT REPORTS

i) Progress Report – Members were advised that due to the change of the Audit Committee meeting date from 29 November 2018, the Reports following the two Internal Audits that had taken place week commencing 5 November 2018 (Internal Audits of Qualifications on Entry – Maths and English and Student Target Setting and Tracking (ProMonitor) – Extended Follow Up) had not yet been received and would be reported to the next meeting of the Audit Committee. The Progress Report did however provide the high level findings which had been provided to management as part of the debrief but could be subject to change following the completion of RSM's internal quality assurance processes.

The Report also detailed the remaining Internal Audit Reviews within the 2018/19 Plan, as agreed with management.

11. INTERNAL AUDIT – ACTION POINT STATUS (PROGRESS TOWARDS COMPLETION OF RECOMMENDATIONS)

A Report providing an update of progress towards the completion of recommendations following the Internal Audits which had taken place within the academic year 2017/18 was received, noting that the Report had not been considered by any other Committee.

Members were informed that two actions remained outstanding following the Internal Audit: General Data Protection Regulation (GDPR) Governance that had taken place in November 2017 and as these actions were nearing completion, these had been flagged as Amber. The detail of these actions was documented within the Report and the Vice Principal: Finance and Corporate Services advised that these would be completed before the next meeting.

12. RISK MANAGEMENT – RISK REGISTER 2018/19

The Audit Committee received the Risk Management – Risk Register 2018/19 Report which had been reviewed by the College Executive Team but had not been presented through any other Committee. For the benefit of the FE Student Governor, the Vice Principal: Finance and Corporate Services provided an overview of the Risk Register and how the scoring of Risks was calculated.

The Committee noted that three risks remained high level due to recruitment challenges, these being failure to meet recruitment targets; failure to meet international targets and; failure to meet income targets. Action Plans were in place to mitigate. Members were also advised that the Risk linked to a successful outcome at Ofsted had also increased since the previous meeting as the College needed to demonstrate significant improvement since the Inspection in March 2017.

One member asked that as the impact on income was a significant risk were cost saving measures in line. The Vice Principal: Finance and Corporate Services provided information on the Cost Saving Plans which the College had in place.

In response to a question that if two financial risks happened simultaneously would this be a challenge, the Vice Principal: Finance and Corporate Services provided assurance that management colleagues monitored any impact at recruitment meetings which took place twice weekly and the management accounts were received monthly. The Executive Team also met weekly to monitor and offset any impact. In addition, standing items were included within the Executive Team agenda and the College had the Dashboards which provided live data.

It was noted that Ofsted and the Education and Skills Funding Agency (ESFA) now held Governors to account.

13. RSM VALUE ADDED – FURTHER EDUCATION RISK MANAGEMENT 2018

The Vice Principal: Finance and Corporate Services presented a Report which had been received from the College's Internal Audit provider, RSM, as part of their Value Added work, which provided an analysis of the key Risk Themes that were presenting in the sector. The analysis was based on over 100 Risk Registers from a range of General Further Education Colleges, Sixth Form Colleges and Specialist Colleges.

Categorised into ten bandings, the Report provided benchmark data comparisons for 2016 and 2018 and how the College compared to the sample. The College was reflective of the sector however members were advised that colleges could categorise and group Risks differently.

It was noted that sections of the Report from RSM were missing and in turn it had been difficult to interpret the data. The Clerk to the Corporation would re-circulate the Report to members following the meeting.

Action: Clerk to the Corporation

14. AUDIT SCHEDULE 2018/19

The Audit Schedule for 2018/19 was received by the Committee which provided detail of the Internal and External Audits that were taking place in the 2018/19 academic year.

Members were reminded, as discussed at Item 10 (i) that two Internal Audits had taken place week commencing 5 November 2018 and the Cyber Security Internal Audit had commenced on 19 November 2018.

BDO had completed their External Audit work, which would be finalised once the Report had been signed off by the Corporation Board. Planning for the 2019/20 (2018/19 Year End) External Audit would commence in April/May 2019.

On reflection of the information presented, the Chair asked for clarification as to why the College had cancelled another planned substantive review instead of commissioning extra days. The Vice Principal: Finance and Corporate Services replied that this was in order to stay within the agreed budget for RSM Internal Audit coverage. The College had a set amount of days to allocate across the different Internal Audit assignments. The College always planned Internal Audits into the schedule linking to Student Records and Finance and the remaining days available were allocated to Risk based themes which were approved by the Audit Committee.

Members were advised that a desk based Cyber Security Internal Audit would take place to provide assurance that the College's process and firewalls were tight. Having a deep dive would require additional days than those allocated. The Vice Principal: Finance and Corporate Services assured members that if the Internal Audit identified any issues or vulnerabilities then additional work would take place.

The Chair asked whether the number of Internal Audit days was sufficient for the College's size and complexity and it was confirmed that this had been benchmarked with other similar colleges. It was, however, agreed that the Vice Principal: Finance and Corporate Services would confirm the total number of days allocated for Internal Audit work and she suggested that the Association of Colleges (AoC) be contacted to identify if there was Internal Audit benchmark data available for the sector.

Action: Vice Principal: Finance and Corporate Services

** Post Meeting Update – An analysis of Colleges with income £10m either side of Blackburn College has been undertaken for 2016/17 data – a sample of 43 Colleges. This has shown that the mean number of days was 46, mode 50 and median 48; the range spanned from 15 to 77 days. Blackburn College has 45 days.*

The spreadsheet showing the actual details is available in Committee Members' OneDrive folders.

Alix Sidall also confirmed that she would obtain guidance from the Internal Audit Team within BDO.

Action: Alix Siddall, BDO

** Post Meeting Update – Information received which indicates that comparable colleges to Blackburn in both size and complexity at BDO have between 50-60 days a year of internal audit services.*

15. DATA RETURNS MONITORING REPORT 2018/19

The Audit Committee received, for information, a Report which detailed the Funding/Data returns that were required to be submitted for both the academic years 2017/18 and 2018/19. The Vice Principal: Finance and Corporate Services reported that the College was compliant and all returns had been submitted on time.

16. ANY OTHER BUSINESS

There were no items discussed under Any Other Business.

17. REVIEW OF MEETING

The Chair thanked members for their contribution to the meeting.

Members felt that the use of papers on their iPads had worked well.

18. DATE AND TIME OF NEXT AUDIT COMMITTEE MEETING

Tuesday 26 February 2019 at 5.00pm.

Signed:

Date: