

## BRIGHTON HOVE & SUSSEX SIXTH FORM COLLEGE

### MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON THURSDAY 6<sup>th</sup> NOVEMBER 2008 at 6.00 P.M. IN THE SPORTS CENTRE CAFE

Present: Michael Bewlock, Dominic Blythe (Chair), Marion Wilcock.

In Attendance: Jutta Knapp, Louise Pennington.  
Liz Foster - Hampshire Audit Services (Internal Auditors)  
Chris Cairns - Tenon  
Karen McGuire - Tenon

The meeting was quorate.

#### **A08/26 Apologies and Welcomes**

Chris Thomson.

Dominic Blythe was welcomed to his first meeting.

#### **A08/27 Minutes of the Meeting held on 22<sup>nd</sup> May 2008**

The Minutes were approved unanimously and signed by the Chair as a correct record of the meeting.

#### **A08/28 Matters Arising**

Item A08/23 g) JHK advised that a response from Zurich (insurance) remained outstanding.

#### **A08/29 Declaration of Interests**

None declared.

#### **A08/30 Review of Terms of Reference**

The terms of reference were considered by the Committee.

With regard to Purpose 4) on page 5 of the papers, the Internal and External Auditors explained the communication process between the two of them to ensure that effective co-ordination is in place and that unnecessary duplication is avoided.

The terms of reference were recommended to Corporation for approval, subject to the following change: delete "Table attached to Annex A to the Interim", from the last line of the clause included under the heading "Frequency". **ACTION: LEP**

#### **A08/31 External Audit Management Letter**

Chris Cairns and Karen McGuire presented the External Audit Management Letter for the year ended 31<sup>st</sup> July 2008 and the following points were noted:

- a) Report issued was unqualified and also unqualified regulatory opinion. There were no significant issues to draw to Governors' attention.
- b) Level of materiality for making adjustments to the financial statements was assessed at £80,000 and adjustments made at less than £800 were considered to be trifling and therefore not notifiable.
- c) Page 3 of report (page 12 of papers) significant matters, including key risks identified within the audit planning memorandum - £1.2M costs have been capitalised. Loan covenant breach owing to reporting a historical cost deficit for three consecutive years

(breach of FRS 17 – pension liability) was noted and in particular that bank had confirmed that it would issue a formal waiver in December 2008 (once accounts are available) on this basis. Tenon is satisfied that the position has arisen on the basis given above and that there is therefore no need for a re-disclosure of the loan under FRS 25. The staff costs as a percentage of total income, being a key performance indicator, is high at BHASVIC compared to other Colleges and plans to reduce this over the next three years via plans to increase staff contracted contact hours to a level consistent with the sixth form sector, was noted.

- d) Page 7 and 8 of the report (pages 16 and 17 of the papers) – CC drew Governors attention to the one minor recommendation relating to Learning Support Funds Return compared to the figure recorded within the financial statements giving a difference of £524.00. Tenon's recommendation that the Finance Department should liaise with student welfare staff when the return is being completed to ensure both parties agree the figures to eliminate any discrepancies with a deadline of July 2009 having been agreed by the Finance Director.
- e) The graphs on pages 1 and 2 of the management report (pages 20 and 21 of the papers) regarding dependency on LSC income and total staff costs as a % of total income, were noted.
- f) Page 3 of the report (page 22 of the papers) Current Ratio – for 2007 and 2008 the College is showing a net current liability position with a current ratio below 1, meaning that in the short term the College is less able to meet its short term debt using cash and money owed to the College (as a result of its capital build plans). However there are sufficient bank facilities in place to accommodate the position. The College's cash flow forecast also supports the auditors' opinion that the College remains a going concern.
- g) Marion Wilcock queried the effect on the College's finances and in particular, cash flow, of the future change in funding provision from the LSC to the Local Authority. It was noted that the details regarding funding provisions were not yet clear, but that with regard to the capital building project, once the AiD has been approved by the National LSC, the agreed funds should be forthcoming.
- h) With regard to section 2.5 Loan Covenants (page 3 of report/page 12 of the papers), Michael Bewlock queried whether the bank would charge should the College request an amalgamation of existing loan arrangements and JHK confirmed that the bank had indicated that there would be no further charge.

At this point in the meeting the Chair asked the external and internal auditors whether they had any issues they would like to discuss in the absence of Jutta Knapp. Both auditors advised that there were no issues arising and that they had received full co-operation from Jutta Knapp and her team in respect of the audit work.

Chris Cairns and Karen McGuire left the meeting.

### **A08/32 Report and Financial Statements for the year ended 31/7/08**

JHK presented the Report and Financial Statements to the Committee confirming that the Finance & General Purposes Committee was required to recommend formally the financial statements to the Corporation for approval and that the paper had been included for the Audit Committee members to provide supporting information in conjunction with the External Audit Management Letter.

Following a query from Michael Bewlock regarding the current assets to current liabilities entry in respect of Outcomes at 31<sup>st</sup> July 2008, it was noted that 0.61 to 1.0 included on page 2 of the accounts (page 36 of the papers), should be replicated on page 156 of the papers within the Annual Report on Risk Management "Key Performance Indicators". **ACTION: JHK/CT.**

In respect of a further query from Michael Bewlock regarding the loan facility with Barclays Bank, JHK confirmed that although the facility letter had now been signed by Peter Freeman on behalf of the Corporation, in order to secure the loan arrangement, the College was unable to draw down against it, until the AiD had been approved by the LSC. She also confirmed that there was no non-utilisation fee attached to the facility and that the fee rate was 0.25% above base for the

revolving facility and 0.35% above base for the long term loan.

Michael Bewlock queried the reduction in Administration and Central Services iro 2008 compared to 2007, being £391,000 compared to £508,000 (page 27 of the report/page 60 of the papers). JHK confirmed that administration had reduced explaining that in 2007 the College had received a specific grant of £54,000 from the LSC to spend on IT which is recorded as "other LSC income". Additionally approximately £100,000 more was spent on IT equipment compared to 2008.

### **A08/33 Internal Audit Annual Report 2007/08**

Liz Foster introduced the paper to the Committee explaining that the report reflects the audit visits completed for the year ending 31<sup>st</sup> July 2008 in 22.75 days. It was noted that BHASVIC had achieved an "appropriate" level with regard to risk management, control and governance processes which are operating in practice. Liz Foster explained that there were 4 levels of opinion – comprehensive, appropriate, incomplete and inadequate and that BHASVIC's opinion was the optimum level, with comprehensive implying that measures in place are excessive.

The main findings of the nine business areas reviewed during 2007/2008, as detailed on page 3 of the report (page 77 of the papers), indicated that all areas have an appropriate framework in place and that controls were operating in practice. All the auditors recommendations have been accepted by College management and actions have been agreed. Appendix C on page 8 – 10 of the report (pages 82 – 84 of the papers) detail the recommendations and accompanying actions. Liz Foster noted the typographical error on page 7 of the report "leaner" should be "learner" which has also been repeated on page 95 of the papers.

The Report was approved and recommended to Corporation. **ACTION: JHK/LEP**

### **A08/34 Internal Audit Strategic Plan 2008/2011**

Liz Foster presented the Plan to the Committee advising that on the basis of Hampshire Audit Services' audit needs assessment, an internal audit plan of 21.5 days will be needed for 2008/2009. The assessed number of audit days takes account of the 2 day reduction in respect of time previously allocated towards Estates management/Planned Maintenance owing to the College's capital build plans.

Page 4 of the report (page 92 of the papers) gives the detailed business area reviews planned and pages 8 -16 of the report (pages 96 – 104 of the papers) provides more details of the risks being considered.

Following on from Marion Wilcock's query raised in A08/31 g) regarding a change in the funding provision, the Committee noted that the risk associated with this would be considered as soon as more information became available.

The Chair raised the point that forecasting was a key area at the moment, particularly in the light of the capital works and that this was not due to be looked at again until 2009/10. Liz Foster confirmed that this area would be looked at as part of the capital project review work.

The Plan was approved by the Committee and recommended to Corporation. **ACTION: JHK/LEP**

### **A08/35 Financial Management and Control Evaluation (FMCE)**

JHK introduced the new LSC Financial Management and Control Evaluation document which forms part of Framework for Excellence. It was noted that the new document was required to be completed annually by the College, recommended for approval by Audit Committee and for this year, to be submitted to the LSC by 12<sup>th</sup> December 2008. The results of the self-assessment

process, once validated, will become a key source of assurance to the LSC in respect of a provider's financial management and control arrangements. From January 2009, the FMCE will replace the Self-Assessment Report Questionnaire which is used currently by the LSC's Provider Financial Assurance (PFA) teams for assurance visit planning purposes.

The Committee noted that SMT had referred to the PFA report which had been completed at this time last year, immediately prior to the Ofsted visit and incorporated relevant details into the FMCE document. Members also noted that the one significant issue arising from the PFA audit had been immediately resolved.

The Committee discussed the overall assessments and agreed that the grades given were realistic bearing in mind the focus of the questions within the document. It was agreed that although a deficit budget had been agreed, it had been planned and that there were sound financial controls in place. The issue of high staff cost to income ratio was also discussed and it was agreed that bearing in mind the nature of the FMCE questions and emphasis towards financial management and control and process, that this issue was insufficient to impact upon the grading given.

Michael Bewlock queried the "no" response to "outstanding" in respect of the provision of "financial controls and processes are robust as attested by internal and external audit" (question number 1.2.4) and JHK explained that it was in fact a strength of the College but only at a level to be expected as normal for any sixth form college.

The Committee recommended the FMCE document to Corporation for approval. **ACTION: JHK/LEP**

#### **A08/36 Audit Committee Annual Report**

The Committee considered the Report and recommended it to Corporation for approval. DB signed the Report as Chair of the Committee.

**ACTION: JHK/LEP**

#### **A08/37 Risk Management Annual Report**

In the absence of CT, JHK presented the Report. The following errors were identified and it was resolved to recommend the Report to Corporation for approval subject to the following amendments **ACTION: CT/JHK:**

Page 153 – "Purpose" – amend "2006-2007" to "2007-2008".

Page 154 – delete first heading "Annual Report on Risk Management 2006-07".

Page 154 – 1.0 Introduction – replace at the end of the paragraph "1.08.06 to 31/07.07" with "1.08.07 to 31.07.08"

Page 156 – 5.1 Performance against the College's financial indicators table, last column, fourth row down, replace "0.48" with "0.61".

JHK to circulate to the Committee details of the recommendation made arising from the PFA Audit, regarding contingencies in place should certain key risks materialise, which the College agreed would be implemented. **ACTION: JHK**

JHK also explained item 3.1 advising that SMT had not received budget monitoring reports in respect of months 7 and 11.

#### **A08/38 Performance Indicators for Internal Audit**

The Committee resolved that Liz Foster should remain whilst the Committee considered the indicators.

A discussion was held and it was resolved that the performance indicators for internal audit should be approved and recommended to Corporation. **ACTION: JHK/LEP**

**A08/39 Update on Internal Audit Recommendations**

The schedule of recommendations and actions taken by Management was noted by the Committee.

**A08/40 Update on Disaster Recovery Planning**

JHK presented the paper to the Committee the contents of which were noted. Additionally JHK explained that further procedures had been introduced regarding trips which are now required to be booked using the College credit card and confirmed that the College’s business procedures had been updated accordingly.

**A08/41 Any Other Business**

**a) Committee Training Needs**

The Committee members were asked to consider training needs in respect of their responsibilities on the Audit Committee and LEP also explained that the forthcoming Chairs’ Committee (13<sup>th</sup> November 2008) would be considering proposals to introduce an individual Governor annual self-assessment/training needs assessment exercise.

Members resolved that there were no training needs at present.

**A08/42 Date of Next Meeting**

**Wednesday 25<sup>th</sup> February 2009**

Louise Pennington  
Clerk to the Corporation

CHAIR..... DATE.....