

BRIGHTON HOVE AND SUSSEX SIXTH FORM COLLEGE

MEETING OF THE AUDIT COMMITTEE HELD ON

THURSDAY 28TH NOVEMBER 2019

AT 6.00 P.M. IN ROOM 63C LINK BUILDING

Present: Phil Anderson (via telephone link), Louise Askew, Sarah Bovill, Jo Davis, Neil Perry (Chair).

In Attendance: William Baldwin, Jutta Knapp and Louise Pennington

Dominic Blythe (RSM – UK External Auditors) – until the end of item 2.1 Audit Findings Report

The Committee meeting commenced with a training session given by the Deputy Principal, James Moncrieff on the Admissions Process. This was following by questions and answers after which he left the meeting.

Thanks were recorded to Michael Bewlock for his long service as a Member of the Audit Committee.

NOTE: FOR EASE OF REFERENCE QUESTIONS AND COMMENTS FROM GOVERNORS HAVE BEEN INCLUDED IN BOLD ITALICS

SECTION 1: ROUTINE AND STANDING ITEMS

1.1 Apologies and Welcomes

Apologies: Mick McLean

The meeting was quorate.

1.2 Minutes of the Meeting held on 19th June 2019

The minutes of the last meeting were agreed and signed as a correct record of the meeting.

ACTION: Louise Pennington

1.3 Matters Arising

The contents of the actions' schedule were noted by the Committee and Jutta Knapp confirmed that the majority of actions had been completed or were on today's agenda.

1.4 Declarations of Interest

None.

SECTION 2: AUDIT AND INTERNAL ASSURANCE ITEMS

2.1 Audit Findings Report (with the Financial Statements for Information) for the year to 31st July 2019.

Dominic Blythe, RSM UK presented the report to the Committee and noted the following:

- a) Page 13 section 1: key highlights were brought to Governors' attention and it was confirmed that there were no modifications required to the Report and Financial Statements or regularity modifications, with only procedural points to note prior to sign off. Dominic Blythe also advised that the recently agreed bank loan should not impact on the financial statements as presented, with details recorded in the disclosures section only.
- b) The Auditor gave assurance to the Committee that there were no significant issues within the accounts.
- c) Management overriding controls – no significant issues, although there are some issues with other Colleges in the sector arising from management of journals and supplier payments. At this point he explained some of the common issues of fraud affecting Colleges of which Jutta Knapp confirmed the Finance Team were well aware and it was acknowledged by all that Colleges must remain vigilant.

- d) Reference was made to the Audit Plan agreed in June and the auditor summarised the key areas of focus and approach for the work carried out.
- e) Pension scheme liability – reference was made to the GMP and McCloud cases which has resulted in Colleges’ pension liabilities being increased, owing to an additional value being recognised within past service costs this year (£33K). However having based on assumptions made by the auditors actuarial department in comparison to other Colleges’ pensions, there are no significant concerns for the College’s pension figures. In agreement with management, narrative has been added to the pensions disclosure to refer to this. (page 35 of report provides more explanation of McCloud).
- f) Going concern – no major issues, having checked and assessment forecasts. However the Committee was reminded of the need to remain cautious particularly in light of the current capital project to ensure that spending is controlled tightly and risks closely monitored. In light of the various points drawn to the Committee’s attention, the Committee discussed the progress of the capital project and noted that monthly Project Manager reports were uploaded to the Governors’ VLE which included on-going risk reporting and it was noted that to date, all indicates showed that the project was on budget and one time. Governors were also reminded that there were 2 capital project risks included within the College’s own Risk Register which was managed by SMT and reported termly to Governors.
- g) At this point, Dominic Blythe reported on the new ESFA finance record requirements (reported at Resources Committee, with a paper to Corporation) – IFMC (Integrated Financial Model for Colleges), noting that the deadline for submission of the new finance record etc was 28th February (for this year only; 30th January annually thereafter), from the current deadline of 31st July. This would impact all College’s calendaring of meetings as the document is required to be approved by Corporation. It was noted that the ESFA had brought in new rules and timing changes in order to ensure that all College were better managing and monitoring their monthly cash flows and other financials.
- h) Section 3 Audit, Accounting and Regularity Issues identified during audit and regularity work (page 16), with any adjustments reported with Section 4 – Unadjusted/Adjusted Misstatements (page 17). Items which are judged to be trivial have not been included in the report (any item less than £4K individually or £10K in aggregate). Misstatements identified by the auditor were advised to Management to correct them.
- i) Section 5 Significant Deficiencies in Internal Control (page 18) – attention was drawn to Lettings income where there is a risk of non-primary purpose which could result in the College being liable for Corporation tax. Regarding the latter, there is an exception in respect of pure lettings, but at College the short term lettings tends to involve additional services provided which a normal landlord would not normally provide; this is likely to be seen to constitute a trade, particularly as the hirer does not acquire any legal interest in the property or take occupation instead of the owner. Such a trade would be classified as non-primary purpose and therefore taxable, subject to small trades’ exemption of £80K income. As a result, RSM-UK has recommended that BHASVIC undertakes a more detailed review of the nature of each of its lettings and seeks specialist tax advice to determine if the specific exemption would apply and if not applicable, the College would need to complete a more detailed cost analysis to determine if there are taxable profits which would generate a liability. Risk Register should also take this point into account. **ACTION: Jutta Knapp/William Baldwin** *In response to a question from the Committee, Dominic Blythe advised that there was no evidence yet that HMRC was focusing on the taxation of lettings income, but he emphasised that as this was a self-assessment process, the onus was on Colleges to ensure they meet the requirements and declare any tax liability. He also explained that should the College assess that Corporation tax is payable, there are other options to manage this such as transferring such activities into a trading account which would result in nil net tax cost outcome, but there would then be the administrative cost to the College of having to set up and manage a subsidiary company. The Committee agreed that Management should undertake the investigate to establish liability in the first instance. ACTION: Jutta Knapp*
- j) *In response to a question from the Committee regarding tax issues relating to consultants which the College may appoint, Jutta Knapp confirmed that some of the Sports Coaches are paid as consultants.*
- k) Section 6 (page 20) Significant Findings from the Audit – the few disclosure points were highlighted, noting that these had been addressed by Management and attention was drawn to the FRS102 and other regulations’ compliance and subsequent recommended adjustments required in the Financial Statements .in respect of the reporting of salary banding in the staff costs note and disclosure of Accounting Officer (Principal) remuneration.

- l) Page 21 Independence – Dominic Blythe reminded Governors that he had been a Governor at BHASVIC some years ago, but following RSM-UK’s internal procedures to review independence issues, there were no causes of concern identified.
- m) Overall clean audit report with no significant risks identified.

Dominic Blythe recorded his thanks to Jutta Knapp and Sheridan Wiseman (Finance Manager) for their help to RSM-UK during the audit work.

At this point in the meeting, the Chair asked the External Auditor whether there was any management issue which he’d like to raise in the absence of management and he confirmed that there was not. Before Dominic Blythe left the meeting, the Committee agreed to deal with the Fraud Report item first, bearing in the fraud issue raised earlier and advice from RSM-UK – refer item 4.1 below.

2.2 Regularity Audit Framework Questionnaire

The contents of the document were noted by the Committee and recommended to Corporation for approval, noting that it would need to be signed by the Chair and Principal once approved, before submission to the ESFA with the Annual Report and financial statements. **ACTION: Jutta Knapp**

The Committee were reminded of the regularity audit process which ensures that the College is acting in accordance with its funding agreement and the ESFA questionnaire requirements and annual return, noting that the document had been revised by the ESFA this year.

It was also noted that the external auditors use the questionnaire during the regularity audit.

2.3 Audit Committee Annual Report for the year ending 31st July 2019

The report which is a requirement of the Audit Code of Practice, prepared by Jutta Knapp with input from Louise Pennington was presented to the Committee for recommendation to Corporation.

The document which details the work completed by the Committee over the last year and confirming that it has met its obligations and the adequacy and effectiveness of the audit arrangements and was recommended to Corporation for approval, noting that it would be signed by the Audit Committee Chair once approved. **ACTION: Jutta Knapp**

2.4 Update on Internal and External Audit Recommendations

Jutta Knapp presented the paper to Committee and the updates were noted. The following additional points were recorded:

- *The target timings relating to the various policy implementations were queried by Governors and Jutta Knapp explained that the initial targets could not be met owing to the Inset training date and other existing commitments. The Committee suggested that it would be more appropriate to set a realistic target in future.*
- *GDPR – deferred to March 2020 regarding staff shortages – in response to a question from the Committee, Jutta Knapp explained that the initial GDPR work had been completed in 2018 as required including implementing policies, initial training and retention records etc, but following staff shortages in the CIS Department, the follow up work still needed to be completed including the data mapping exercise which is very administrative. The risk of not having completed this GDPR aspect may be that a member of staff has data on personal drive on computer, not in the College system, although it was acknowledged that this could be a risk regarding of having not having completed the mapping exercise.*

2.5 Performance Indicators for Internal Auditors

The Committee noted the annual exercise of performance review in respect of the Internal Auditors (Mazars) and Jutta Knapp confirmed that overall the work over the year had been good, despite a diary confusion at the last meeting where the Internal Auditors missed the meeting. She also mentioned that some reports had had to be chased close to various deadlines but that Mazars remained good value for money.

Jutta Knapp reported that she would be submitting a request for a fee review this year, noted that the contract was opened ended with CPI fee increase included. In the near future the College may decide to go out to tender.

In response to a question from the Committee, Jutta Knapp confirmed that she had passed feedback to Mazars in respect of last year's audit work.

The Committee recommended the performance indicators to Corporation for approval. **ACTION: Jutta Knapp**

SECTION 3 CONSENT AGENDA

POLICIES AND OTHER DOCUMENTS

3.1

a) **Whistleblowing Policy and Procedures** – recommended to Corporation for approval.

b) **Risk Management Policy** – recommended to Corporation for approval.

3.2 Risk Register

The contents of the Risk Register as presented by William Baldwin, were approved and recommended to Corporation.

ACTION: William Baldwin

3.3 RISK ASSURANCE MAP AND ASSURANCES FROM COMMITTEES – recommended to Corporation for approval.

SECTION 4: OTHER MATTERS

4.1 FRAUD REPORT

In addition to the points made above regarding fraud in the earlier discussion under item 2.1 c., the Committee were reminded that at the last meeting information regarding Annex D of the Audit Code of Practice, highlighted the new anti-fraud issues, had been presented. It was agreed that it would be useful to upload the paper to the VLE to draw attention to this matter for all Governors. **ACTION: Louise Pennington**

Regarding the invoicing fraud issues, William Baldwin reported that an e mail fraud had been attempted on the College, whereby an email was sent to the Finance Office, via the Principal's email account seeking urgent quick payment and trying to circumvent the College's normal procedures. As the Finance Team is well versed in the procedures and fraud attempts within the sector, no payment was made and all involved were notified.

4.2 ANY OTHER BUSINESS

The Committee raised further queries in relation to the Financial Statements as follows:

- 1) Note 6 in accounts - Teaching staff costs appear to be reduced whilst the number of teachers have increased: It was noted that this was not the case as the staffing cost figures in the accounts reflect overall staff costs including both teaching and support staff. However it was noted that if/when senior teaching staff resign/retire, it's usual for their replacement to be on a lower salary than the outgoing member of staff which would reduce overall staff costs.*
- 2) Payment of suppliers – this is running at 87% within 30 days settlement and the Committee queried whether this should be higher (95% as recommended) and the reasons for it. Jutta Knapp explained that owing to the cyclical nature of the business and that fact that staff required to approve budget payments, may be on holiday, hence delaying sign off. Furthermore with invoices requiring consultation with various staff, this can take more time to get feedback from everyone involved, which may delay payment by more than 1 month. However broadly it was agreed that 87% was in fact a reasonable percentage payment outcome. The Finance team do complete 2 payments runs per week, so once approved invoices reach the Finance Team they are paid quickly. There are currently no disputes regarding delay in invoice settlement with the College.*

4.3 Date of Next Meeting

12th MARCH 2020 AT 6.00 P.M.

SECTION 5: CONFIDENTIAL BUSINESS

None.

Louise Pennington

Clerk to the Corporation

.....

Chair of Audit Committee

.....

Dated