

BRIGHTON HOVE AND SUSSEX SIXTH FORM COLLEGE

MEETING OF THE AUDIT COMMITTEE HELD ON

THURSDAY 29th NOVEMBER 2018

AT 6.00 P.M. IN ROOM 413 COPPER BUILDING

Present: Michael Bewlock, Sarah Bovill, Veronica Jinks, Chris Piper (Chair) and Tom Wolfenden (present via Face Time)

In Attendance: Jutta Knapp, Louise Pennington and Zoe Longstaff-Tyrrell RSM –UK External Auditor)

Note: As Tom Wolfenden was abroad and would be joining the Committee via Face Time, Chris Piper took the Chair for this meeting.

A18/01 Apologies and Welcomes

Apologies: None

The meeting was quorate.

A18/02 Minutes of the Meeting held on 4th July 2018

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

ACTION: Louise Pennington

A18/03 Matters Arising

The contents of the schedule on page 8 of the papers were noted by the Committee and Jutta Knapp confirmed that the majority of actions had been completed or were on today's agenda

- A16/39 Internal Audit Plan Data Protection Audit – this has been booked for 14th January 2019
- A17/07 and A17/12 Pre-Committee Training: Spring Term – Staff Recruitment Issues associated with risk implications including processes involved, advertisements, overall approach (website etc); Summer Term – Admissions Training A17/19 Internal Audit Reports – Gender Pay Gap – SMT has reviewed the matters and an Annual Report has been presented to the Resources Committee this term.
- Internal Audit Reports – Risk Management – incorporate heat map – DONE.
- A17/35 Risk Register – Risk 6.6. and 6.7 (Capita) – include revisions in latest Register – DONE
- A17/37 Internal Audit Plan 2018/2019: in future consider audit for IT disaster recovery – **ACTION: JUTTA KNAPP CARRY FORWARD**
- A17/42 Internal Audit Reports – implication from wording in paper suggests that Audit Committee has powers in capital project procurement decision making to sign off a waiver regarding professional fees – this is incorrect and auditors to be asked to revise this in their next Report (and Jutta Knapp to liaise with Chair of Resources Committee too) – **ACTION: JUTTA KNAPP – CARRY FORWARD**

At this point Michael Bewlock joined the meeting

A18/04 Declarations of Interest

None

It was decided to deal with item A18/06 before A18/06 as Zoe Longstaff-Tyrrell had not yet arrived for the meeting – refer minute below.

A18/05 Audit Findings report (with the Financial Statements for information) for the year to 31st July 2018

The Committee were informed that the Annual Report and Financial Statements had been considered at the Resources Committee on 26th November 2018 and had recommended these to Corporation for approval. The Financial Statements had been included in the Audit Committee meeting papers for information only.

Zoe Longstaff-Tyrrell (RSM-UK External Auditors) introduced the Audit Findings Report and confirmed that there were no significant findings relating to the financial statement disclosures noted during the audit. The following points were highlighted:

- Income recognition and the risk of not properly recognising income in the year. As in prior years we are awaiting the final reconciliation statement to conclude in this area, but no issues are anticipated. .
- There has been a reduction in income this year following last year's increase in income owing to additional ESFA funding received in respect of the closure of Haywards Heath Sixth form, with additional Students travelling to Brighton for their studies, together with the impact arising from the reduction in ESFA Formula Funding Protection.
- Pension liabilities (LGPS – Local Government Pension Scheme) – movement of £962,000 (additional liability). Zoe Longstaff-Tyrrell advised that the College should continue to review and challenge assumptions regarding the pension liability calculations and adjustments; RSM-UK does have a number of clients within the FE Sector and confirmed that the increase in pension liability provision was consistent across the sector.
- Management override of controls/risk – attention was drawn to the audit work carried out including the performance of additional tests, reminding the Committee that the systems of internal control were designed to mitigate inherent risks of error with the core control systems.
- Audit/accounting/regularity issues arising during audit work:
 - i) College's investment in Source Bioscience (inherited by College) was classified as a listed investment in the financial statements but has been delisted during the period (note 10b to the financial statements) and an adjustment will be made in the final version of the financial statements, moving the investment to delist line within the note. ***In response to a question from the Committee regarding investment value and options available***, it was noted that the value included would be £22,000 but that this was difficult to confirm owing to the delisting of the shares. It was agreed that it may be worth investigating whether the shares can be sold or alternatively if not, would have to consider whether to write down the investment over future years. **ACTION: Jutta Knapp**
 - ii) Missing Pre-Payment arising from a bill for rates (£32,000) which spanned 2017/2018 and 2018/2019 and should be recognised as a prepayment for the eight months of 2018/2019 to which it relates. However as the amount is not material, no adjustment to the financial statements has been recommended and it has been assessed to have no impact on the income and expenditure for the year.
 - iii) Capitalisation of Assets – server equipment purchased in the year has been recognised as expenditure in the statement of comprehensive income, based on the fact that the value of the equipment was £15K and owing to the calculated equipment's useful life. A recommendation was included in the findings report to capitalise the asset but no adjustment has been processed as it was considered to be immaterial. Hence an unadjusted misstatement has been included in the Audit Findings Report.
 - iv) Fixed Asset Cut-Off – IT equipment totalling £124K was purchased during the year and College was invoiced in July, but the purchase was not recorded in the ledgers until August 2018, so have not been recognised in the financial statements. The auditors have agreed that no adjustment will be made to the final financial statements, consistent with previous years' treatment, in respect of equipment purchased in July for use in the following academic year.

The details above have been recorded in the Letters of Representation accordingly.

- There were no issues arising in respect of internal control or impropriety identified during the audit and there were no other disclosures which needed to be brought to the attention of the Audit Committee.
- Letters of representation – financial statements (FS) and regularity audit – the standard format has been included, subject to the summary of unadjusted items reported above in the FS letter and these will need to be signed by the Chair once agreed at the Corporation meeting in December. **ACTION: Jutta Knapp**
- Appendix B includes information regarding any FE sector updates.

- ***The Committee discussed the issues in respect of the Teachers' pension contributions and implications in respect of future funding and future budgeting in light of the post March 2020 funding cut off.*** William Baldwin advised that SMT would be reviewing this issue when the 2019/2020 budget is drafted and also awaiting advice and guidance from the AoC and SFCA.
- ***In response to a question from the Committee regarding the policy on capitalisation of assets (refer above) and the treatment of non-adjusted items,*** Zoe Longstaff-Tyrrell advised that as this was an error, there would be no need to revise policy.
- ***A further question from the Committee raised the question of whether the accrual process was detailed explicitly in the accounting policies*** and Jutta Knapp advised that this was not recorded in detail, but was the usual practice followed.

The Committee questioned the pension liability adjustment and Zoe Longstaff-Tyrrell explained that the adjustment was based on actuarial analysis, the details of which had been reported to the Resources Committee when reviewing the financial statements (refer movement in accounts page 84).

The Chair asked Zoe Longstaff-Tyrrell whether she had any issues which she'd like to raise in the absence of the Senior Management Team and she confirmed that she did not, after which she left the meeting.

A18/06 Regularity Audit Framework Questionnaire (RAQ)

The Committee considered the financial and governance responses given by Jutta Knapp and Louise Pennington and noted that this had been shared with the external auditors, being part of their regularity audit.

The Committee asked the following additional questions:

- ***With reference to Corporation's safeguarding of assets' responsibilities, the Committee queried whether insurance cover was regularly reviewed in order to ensure an effective process was in place to assess risk and exposure.*** Jutta Knapp confirmed that the insurance arrangements were reviewed annually at renewal.
- ***Referring to Page 89 of the papers and the question relating to the funding assurance review and revenue grants and donations, the Committee proposed that the response should read "Yes" and not "N/A". ACTION: Jutta Knapp***
- ***Page 95 first entry relating to the College's operation of GPC (procurement cards), as this could be classified as a credit, the Committee suggested that the response be changed from "N/A" to "Yes". ACTION: Jutta Knapp***

Subject to the revisions made above, the questionnaire was recommended to Corporation for approval. **ACTION: Jutta Knapp**

Zoe Longstaff-Tyrrell joined the meeting at this point and the Committee returned to agenda item A18/05.

A18/07 ESFA Funding Assurance Review

The Committee noted the contents of the paper introduced by Jutta Knapp and she explained that the College had been selected at random for the ESFA funding audit which was carried out in September. Overall the College was pleased with the ESFA's conclusions, stating that the College has complied with the funding rules.

However there were some minor issues arising in respect of both the 16-19 and 19+ funding provision, but with only the 19+ issues resulted in a small funding income clawback. The Committee noted that one of the issues arising in respect of the 19+ income was the recording by the College of whether Students had studied previously with some duplication in the record. Jutta Knapp explained that the College had been optimistic prior to the review owing to the outcome of the previous Learner Number Internal Audit which had demonstrated that the College was fully compliant

A18/08 Audit Committee Annual Report for the year ended 31 July 2018

The Report which was prepared by Jutta Knapp and Louise Pennington reflects the work of the Audit Committee during the last financial year and also verifies that the College complies with the Joint Audit Code of Practice (JACOP).

The Committee questioned whether the increase in the College's IT risk had been identified promptly and effectively notified to the Audit Committee and then reviewed sufficiently rigorously by the Committee in light of the pre-Committee training session given by the IT Manager in the last year. Jutta Knapp explained that although the Committee had had a pre-Committee presentation from the IT Manager (page 113 of papers), this had been in relation to IT security and back up data; this was therefore a different IT risk to the current IT issues which the College is addressing currently. The latest IT problems were only identified by the College since the start of the new academic year.

Once Corporation had seen the Report, the Chair of Audit will be authorised to sign the Annual Report, a copy of which will be submitted to the ESFA along with the College's Financial Statements. **ACTION: Louise Pennington**

A18/09 Update on Internal and External Audit Recommendations

The updated report was considered by the Committee

The Committee queried the College's risk appetite as referred to the previous minutes (see below excerpt from last minutes item A17/33) as there appeared to be some inconsistency in the response given regarding the last point on page 121 with the Risk Management and Assurance Framework advisory review as per the excerpt below:*

Recommendation: The College should clearly articulate their risk appetite and document this within the Risk Management Policy or within the Risk Register. The College should also consider enhancing their reporting of the Risk Register and definition of risk appetite through presenting a charted Heat Map at each Audit Committee meeting as part of the Risk Register papers. This was actioned by the Principal in September 2018.

**A17/33 The Committee considered the risk appetite issues and were not minded to recommend this aspect of Risk Management at present noting that the definitions of the impact / probability, themselves generate the College's attitude to risk and in a College in a single location with an experienced Senior Management Team, the incremental benefits of developing a risk appetite statement did not merit the management time.*

Jutta Knapp agreed to improve the clarity in the management response as the "Done" response actually only related to the heat map implementation and agreed to correct the wording regarding the risk appetite section. **ACTION: Jutta Knapp**

A18/10 Performance Indicators for Internal Audit

In response to a question from the Committee regarding the work of the Internal Auditors, Jutta Knapp confirmed that there were no issues with the internal auditors' work and that this year the production of reports in a timely manner had also improved.

The Committee recommended that in future reports it would be more appropriate to move away from a yes/no response to a scoring system to assist evaluation. **ACTION: Jutta Knapp**

A18/11 Risk Register

William Baldwin introduced the updated Risk Register to the Committee and the explanations given in the meeting paper front sheet were noted. The Committee welcomed the explicit link for each risk to the relevant section of the strategic plan.

The additional points were also recorded:

- Risk associated with reliance for the College's key systems on CAPITA has been increased within the Q & C Committee's risk responsibilities.
- Also a new risk has been added to the Q & C Committee responsibilities, namely Failure of IT systems leads to inability to deliver curriculum (and not just business systems) impacting adversely on teaching, learning and assessment outcomes, owing to the fact that the main impact on quality delivery data to stakeholders is in respect of the curriculum, with the maximum risk score of 9.

- ***In response to a question from the Committee regarding the current IT issues***, William Baldwin updated Governors on progress with the IT consultants and explained the log in timing issues which were affecting both staff and students, together with the reasons behind the problems, including Windows 10 updates struggling to operate on old hardware (4 RAM rather than 8 RAM). He advised that a report would be made to Corporation in December 2018 in light of the outcome of the consultants' report and recommendations, together with proposals for long term IT strategy and recruitment of a specific IT Director post. Reference was also made to the risk of unfunded cost of living pay allowances and noting that no agreement has yet been agreed. Additionally it was noted that an initial ballot for industrial action has been instigated. ***The Committee queried the likelihood of industrial action and*** in response William Baldwin explained that he had spoken to the respective Union representatives to gauge the appetite from Teaching Staff for industrial action. He reported that Staff recognised that this was not a management created issue, but related to central Government funding and also faced the dilemma of wanting to challenge Government regarding pay, but at the same time, did not want Students to be impacted by a loss of teaching. It was noted that the College had closed in the past owing to strike action taken. Hence the need to increase the risk score in this instance.

The Committee agreed that the addition of the heat map at the end of the document including the key risk details, was useful.

The Risk Register, as revised, was recommended to Corporation for approval. **ACTION: William Baldwin**

A18/12 Risk Assurance Map and Assurance from Corporation Committees

In response to a query from the Committee regarding inconsistency regarding risk score 6.6 in this document and the Risk Register, William Baldwin and Jutta Knapp agreed to review the details to ensure alignment between both documents with regard to the risk score and to also add commentary in the Map for Risk 6.6 (refer pages 128 and 131 of the Audit Committee papers). **ACTION: William Baldwin/Jutta Knapp**

The Committee also queried the commentary included in respect of the IT risk but on reflection it was agreed that this should be updated after the outcome of the IT consultancy process. **ACTION: Jutta Knapp**

Subject to the above changes, the Map was recommended to Corporation for approval. **ACTION: Jutta Knapp**

A18/13 Fraud Report

None.

Jutta Knapp informed the Committee that the College's Finance Department continued to receive lots of free advice and information from the bank regarding current fraud related issues in the sector, including guidance regarding working practices and issues of which to be aware.

A18/14 Any Other Business

The Committee recorded their thanks to Jutta Knapp for the College's excellent audit outcomes. Thanks were recorded to Veronica Jinks for her contributions to the Committee, noting that this was her last Committee meeting before the end of her term of office as a Parent Governor in December 2018.

A18/15 Date of Next Meeting

Thursday 7th March 2019 at 6.00 p.m.

Louise Pennington

Clerk to the Corporation

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Chair of Audit Committee

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Dated