Governing Body
AUDIT AND RISK MANAGEMENT COMMITTEE

WEST SUFFOLK COLLEGE

Minutes of the meeting held at 5.00pm on 22 November 2016

Present:	**N Roberts (Acting Chair)**	**A Maltpress**
	J Gazzard	**K Heathcote**

In Attendance: **S Jones, Vice Principal Finance and Resources**
P Ewan, Head of Finance
C Sutherland, RSM
P Goddard, Scrutton Bland
J Bridges, Clerk to the Corporation

No interests relevant to items on the agenda were declared by members.

Action

1 Election of Chair

Due to the absence of the Chair and in line with the Committee Terms of Reference Members elected N Roberts to chair the meeting.

In order to facilitate succession for K Golding who at the point becomes Chair of the Corporation (wef 1 January 2017) is automatically precluded from being the Chair of the Audit and Risk Management Committee under the Joint Audit Code of Practice, the Committee consider the proposal that the Corporation appoints J Gazzard, currently a co-opted member to this and the Standards and Excellence Committees, as a full member of the Board and is further appointed to take up the post as Chair to this Committee. The vacancy of Vice Chair is proposed to be filled by N Roberts. It was noted that both J Gazzard and N Roberts are happy with the proposals for the appointments. The Committee agreed to put forward the recommendation to the Corporation at the meeting to be held on 15 December 2016. **Proposed** by A Maltpress and **seconded** by K Heathcote. Both appointments would take effect from 1 January 2017. — KGolding

2 Apologies for absence

Apologies for absence were received from K Golding, Chair. Apologies for absence were also received from L Keane of Scrutton Bland and J Smith of RSM.

3 Minutes of the meeting held on 11 October 2016

The minutes of the meeting were agreed as a correct record subject to amending item 8v. concerning the completion of the Maths and English internal audit work. The minutes suggest that the audit work has been completed, a debrief meeting has taken place and a report would be presented at the November meeting; however, during the meeting it was reported that the audit had commenced on the same day but the second day of the audit had been postponed until December 2016 so the report would not be going to the November meeting. A meeting with the audit sponsors took place and the second date of the audit meeting confirmed but this was an interim meeting rather than a debrief meeting. The Clerk is to amend the minutes. — JBridges

4 Matters Arising

From the minutes of the meeting held on 11 October 2016:

1 Election of Chair
Covered under agenda item 1 above.

6 Internal Audit Recommendation Tracking Report
The options appraisal detailed report from Green Duck has been shared with the Committee and discussion held covered under item 5 below.

An additional column has been added to the tracking report to advise an expected implementation date as suggested by the Committee.

8.ii. Data Security
A note will be added to the Induction Handbook to highlight that members should dispose of any College correspondence by use of confidential shredding and recycling facilities. The Clerk can facilitate this service and papers should be given back to the Clerk for confidential disposal. The Clerk will also add a note in the footer of emails to explain the disposal process for any correspondence between Governors. JBridges

8.v. Maths and English
Governors have been invited to join a number of Lesson Walks this term and these will continue throughout the academic year and will be on offer again on the Governors' First Hand Week programme.

9. Internal Audit 2016/17 Progress Report
The Health and Safety Audit Brief has been shared with A Maltpress, Governor Lead for Health and Safety, for comment. The brief is covered under agenda item 11.i. of this meeting.

10. Assessment of Internal Control Systems (FMCE)
The alternative is to rely upon the assurances from the Regularity Audit Self-Assessment Questionnaire that is also completed by the College Secretary rather than continue to use the former SFA Financial Management and Control Evaluation (FMCE) Assessment. Both documents are agenda items for discussion at this meeting.

11. Risk Management Update
A Governors HE Growth Task and Finish Group has been established to undertake the HEFCE Quality Assessment return by 1 December 2016. The Corporation has awarded delegated power to the group to undertake the submission to HEFCE.

5 <u>Internal Audit Recommendation Tracking Report</u>
As part of the third line support contract the contractor was asked to provide an options appraisal report which was provided to the Committee. This detailed three available options that will be considered as part of the College's operational planning and future IT strategy that will not necessarily require the approval of the Corporation as suggested should be sought as part of the internal auditor's recommendation. P Goddard of Scrutton Bland confirmed that at the time of the audit work it was thought appropriate to suggest that the Corporation reviewed, considered and approved the option selected but felt that it was entirely appropriate for a decision to follow a different course just as long at the Committee were informed about how this recommendation would be discharged. It was agreed that the likely discharge of this recommendation will be through the IT Strategy that is almost certainly to be put before the Corporation to consider and approve at the point that the

	curriculum strategy has been determined so the Vice Principal Finance and Resources was asked to keep the Committee informed of progress via an update on the tracking report.	SJones
	The three remaining recommendations on the tracking report relate to the Governance Audit work and will be subject to review/completion by the Appointments and Governance and Remuneration Committees and/or will be work in progress over the 2016/17 academic year. The Clerk confirmed that her job description has been reviewed and brought up to date. The amendments are to be considered by the Remuneration Committee at is meeting to be held on 1 December 2016.	
6	**<u>Draft Committee Annual Report 2015/16</u>** The draft annual report of the Committee has been prepared and approved by K Golding for the 2015/16 academic year.	
	The performance indicator questionnaire is to be completed by Committee members after the meeting and submitted to the Clerk. The aggregate scores of members will then be presented in the final report to the Corporation for approval at the meeting to be held on 15 December 2016.	Members JBridges
	Internal Auditors advised that section 13 of the annual report should make specific reference that states that the Committee's opinion on the adequacy and effectiveness of the College Corporation's audit arrangements, its framework of governance, risk management and control, and its processes for securing economy, efficiency and effectiveness. The College Secretary asked Internal Auditors to confirm where there is a requirement to state this opinion and will update the College's risk management policy and the annual report as appropriate once determined. Subject to this amendment the Committee approved the report and will present it to the Corporation at the meeting to be held on 15 December 2016.	PGoddard
7	**<u>Assessment of Internal Control Systems (FMCE)</u>** The College Secretary has updated the assessment to include the pass rates that demonstrate the improvements in the educational performance since the last inspection (question 5 of Area 1, Section 2 on page 8) and has also met with the Vice Principal Finance and Resources to appropriately answer question 8 on page 9. The Committee questioned if under question 2 of Area 3, Section 2, there was confidence to answer 'yes' that internal auditors have been able to provide 'substantial' assurance on all the systems reviewed in the last 12 months. The Committee considered changing the answer to 'no' as internal auditors have awarded six significant and one strong assurance in the year. It was then questioned whether this indeed was considered 'substantial. The Committee asked that the answer to this section stated the actual audit assurances awarded and subject to this amendment the assessment will be taken to the Corporation at the meeting to be held on 15 December 2016 for Corporation to approve and the Principal asked to sign.	JBridges
8	**<u>Regularity Audit Self-Assessment Questionnaire</u>** At the last Committee meeting members reviewed and considered the content of the Financial Management Control Evaluation (FMCE) assessment (as detailed above) which as highlighted by the Internal Auditor's is a historical document which has been superseded but the mandatory Regularity Audit. Although this is a much less detailed document, it provides the Chief Executive	

of the SFA and the EFA with the assurance that financial management and control arrangements of the College are effective.

The Committee has considered the FMCE a useful management tool for the College to benchmark itself against expected sector good practice and used this assessment to determine whether the financial management and control arrangements assurance level of the College are effective.

The Committee was asked to decide whether to continue with the completion of the FMCE or substitute with the less detailed Regularity Audit Self-Assessment Questionnaire (SAQ). It was agreed that the College Secretary should continue to complete both. Members felt that the FMCE is still a relevant and valuable tool but recognised that over time it may not remain appropriate and therefore asked that they review the position at the meeting to be held in the summer term to determine whether or not it is to be completed for the 2016/17 academic year. The Clerk is to add this as a discussion item for the meeting to be held on 20 June 2016. JBridges

9 **<u>Audited Accounts for the year ended 31 July 2016</u>**

The financial statements have been prepared in accordance with FRS102 but this currently reflects the treatment of UCS grant funding as non-government funding, in the absence of evidence that reinforces the funding as government grant. The College has asserted that this funding was from government sources (HEFCE, SCC and EEDA) but via UCS and should therefore be treated as such, but the College has not been able to provide the auditors with documentary evidence supporting this view. In the absence of such evidence, the grant must be fully released to the income and expenditure reserve prior to the 2015/16 year and the impact of this will be a reduction in release of deferred capital grant income in 2015/16 and the subsequent three years amounting to £216K per annum and then a reduced amount for a further four years until the grant would have been fully written down. This makes no difference to the financial well-being of the College and effectively is just bringing forward the income to the Income and Expenditure reserve prematurely but presentationally this will make the Statement of Comprehensive Income look weaker for several years to the lay reader. If the College insists on using this treatment then the auditors will provide a qualified opinion which then presents additional challenges. There is little confidence that the evidence of funding source will come to fruition but the Vice Principal Finance and Resources has been tasked by the Resources Committee to seek confirmation from the four funding sources that they were all part funding contributors.

A qualified financial audit opinion would raise concern with the SFA and the bank although the bank has confirmed that if a covenant breach is forecast purely due to the accounting changes then a waiver letter to the client for that year would be issued as long as it was very clear that was the only reason for the breach. If the covenant breach is down to true financial difficulties then that would be treated separately.

The Committee was in agreement that the correct accounting treatment of the grant is to be applied in order to effect an unqualified set of accounts.

10 **<u>External Audit Findings Report</u>**

The audit of the Report and Financial Statements for the year ending 31 July 2016 received an unqualified opinion, subject of course to the discussion as noted above concerning the treatment of the non-government funding under FRS102. Under this accounting rule the costs of short term employee benefits such as holiday pay are also to be recognised as a liability and an expense. The annual leave year runs to 31 August each year for both teaching and non-teaching staff meaning that, at the reporting date, there was an average of 22 days unused leave for teaching staff and 9 days unused leave for non-teaching staff. The cost of any unused entitlement is recognised in the period in which the employee's services are received so an accrual of £720K was recognised at 1 August 2014, £752K at 31 July 2015, and £808K at 31 July 2016.

At the date of the report no modifications from the pro-forma financial statements audit report or the regularity assurance report provided in the Audit Plan were made.

Pages 3 through to 8 set out the key areas of the audit focus; Income Recognition, Pension Scheme Liabilities, Going Concern, Management Override of Control, First Year Adoption of F&HE SORP 2015, Accommodation Strategy and Relationships with Academy Trusts. Under Income Recognition is was noted that auditors are awaiting confirmation from the funding bodies of approval of the final ILR14 submitted by the College but no adjustment to the accounts is anticipated. Pension Scheme Liability work was performed as planned and assumptions used are considered to be appropriate. The College is considered to be a Going Concern and no matter arose as part of the audit work to suggest that this was not appropriate. It was noted that the bank covenants, as confirmed by the bank still refer to old UK GAAP terminology rather than FRS102 and an internal recommendation in relation to this has been made as part of section 6 of the report (page 13) where the College has been advised to confirm with the bank how the covenants should be calculated under FRS102. Auditors did not identify any significant non-routine or contentious transactions in relation to management override of control. The financial statements have been prepared under the F&HE SORP 2015 for the first time and a number of small scale adjustments proposed in addition to recognising the non-government grant adjustment under the performance model resulting £216K reduction in release of deferred capital grant income in 2015/16 and the subsequent three years per annum. Audit work on accommodation strategy was undertaken as planned and an adjustment to the allocation of the £1.5m paid for the purchase of Suffolk One to reclassify the cost from investments to tangible fixed asset has been made. Auditors concluded that they do not feel that it is likely a parent/subsidiary relationship exists concerning SAT and/or SENDAT multi academy trusts. The services provided at Suffolk One are at an arm's length basis and are governed by a service level agreement.

Section 3 of the report sets out the audit, accounting and regularity issues identified during the audit and regularity work. This outlines the specific detail with regard to the deferred capital grant issue detailed above and the £1.5m adjustment in relation to the reclassification of the Suffolk One land and buildings cost from investments to tangible fixed assets.

A summary of the unadjusted/adjusted items identified during the course of the audit work were detailed in section 4. These included adjustments concerning the reclassification of Suffolk One land and buildings, reclassification of rental income received from Vintens, reclassification of capital grant releases, the recognition of the non-government grant under the performance model in relation to the FRS102 treatment of UCS funding received and other smaller reallocations of intangible assets.

Section 5 of the report confirms that no potential impropriety issues were found during the audit work and section 6 sets out the observations of internal control. It was noted that discussions with the bank concerning the treatment of covenants under FRS102 as opposed to the UK GAAP are to be sensitively approached. As the College is considered to be a Going Concern there is confidence that if loans are renegotiated they could be paid and therefore risk exposure is minimised. A breach in covenant is not forecast in this year but could be a risk in years two and three but this issue is not day or week critical at this point in time but a review of the position will take place in the Spring term.

The College is currently carrying forward within creditors an amount of £127K which relates to income received of £35K from the LSF (Learning Support Fund) and £92K owing in relation to 2013/14 bursaries. There is a risk that the College is recognising these amounts as liabilities where there is no likelihood that the College will be required to repay these funds so auditors have advised that the College investigates and checks whether these amounts still represent a valid liability at the year-end or not and therefore should determine how these funds can be released to income going forward.

The College has a number of other sources of income and there is a risk that if the income is considered to be taxable and exceeds £50K then the College could be subject to Corporation tax. The College has received income from the Biomass Boilers and at present it is not clear whether this income would be regarded as taxable or not. The College has been advised to seek appropriate advice on the tax treatment of all significant income streams but there is confidence that there is no material impact to the College in this respect at this time.

During the course of the audit work, the adequacy of the disclosures within the financial statements and their compliance with both relevant accounting standards, including the SORP – accounting for F&HE 2007, and the Accounts Direction by the SFA and EFA have been reviewed and minor amendments during the course of the on-site audit have been corrected and made by management. Thanks were extended to the Vice Principal, Finance and Resources, the Head of Finance and the Finance Team for their time and assistance during the audit.

It was noted that income for the year to 31 July 2016 included a one-off grant within income for the land element of the Engineering Block project (Vintens), without this release the deficit before actuarial loss would have been £340K.

It was recorded that the fees charged during the year are consistent with those contained within the audit plan submitted to the College and approved by the Corporation at the meeting held on 14 July 2016. In accordance with the International Standard on Auditing (UK and Ireland) 260 independence and objectivity has been maintained throughout the audit approach.

Appendix A (page 17) details the draft letters of representation and a recommendation will be put to the Corporation for these to be signed at the meeting to be held on 15 December 2016. KGolding

It was noted that auditors have reissued their letter of engagement taking account of the recent change of the Secretary of State. The Clerk will ask the Chair of Governors to sign the letter. JBridges

11 **Internal Audit Brief**

i. Health and Safety

The Committee considered and agreed the scope of the internal audit work.

12 **Progress Report**

It was noted that some planned audit dates have moved to accommodate availability of audit sponsors but four reports of the audit work are expected to be completed and ready for the next meeting of the Committee in February 2017. Risk Management Training for College Managers takes place this week and a verbal report will be brought back to the Committee. PGoddard

13 **Any other business**

The College Secretary commented that members had asked at the meeting held in October 2016 why a number of cells on the assurance line of the risk register were coloured grey and confirmed that there were associated assurances for the risks but these had not been mapped at the time the register was presented to the Committee and therefore were coloured grey to indicate that this needed to be done. The relevant cells will be updated during the next review of the risk register that will be presented to the Committee at the meeting to be held in February 2017.

Date of next meeting

Tuesday 21 February 2017 at 5.00pm. Room TG1.16

The meeting closed at 6.50pm