

NOT FOR PUBLICATION
Minute Nos. U18.36.5, U18.36.9, U18.38.1

SANDWELL COLLEGE

Minutes of the Audit Committee meeting held on
Tuesday 27 November 2018 at 8.00am

Present: J Britton (Chair) Independent
G Bassi Independent
R Jenkins Independent

Apologies: K Shaikh Independent
J Uddin Independent

In attendance: B Devitt Grant Thornton
H Lillington Grant Thornton
S Morom Interim Exec Director, Finance & Resources
G Pennington Principal
E Scotford Clerk to the Corporation
A Hussain RSM (not items U18.30, 18.31, 18.32, 18.33,
18.35, 18.36.1-18.36.5)

		Action
U18.30	<u>Declarations of Interest</u>	
	JB declared an interest in any references to payroll services as the Chief Executive of Sandwell MBC and to the pension fund as a Board member of the West Midlands Pension Fund (WMPF).	
U18.31	<u>Apologies</u>	
	Apologies were received from Kamran Shaikh and Jalal Uddin and were accepted by Governors.	
	RESOLVED THAT: apologies be accepted	
U18.32	<u>Minutes of the previous meeting and Confidential Session held on</u> <u>Tuesday 19 June 2018</u>	
	The minutes were agreed as a true and accurate record and were signed by the Committee Chair.	
	RESOLVED THAT: the minutes be approved.	
U18.33	<u>Matters Arising</u>	
	There were no matters arising.	
U18.34	<u>Internal Audit Reports 2017/18</u>	
34.1	<u>IT Cyber Security Framework FINAL (1.17/18)</u>	
	The report was now finalised and, as there had been no changes to action dates and owners of the actions since the initial presentation, it was noted as a matter of formality.	
	RESOLVED THAT: the report be received	

34.2	Post 1 May 2017 Apprenticeships Framework Review FINAL (2.17/18)	
	The report was now finalised and, as there had been no changes to action dates and owners of the actions since the initial presentation, it was noted as a matter of formality.	
	RESOLVED THAT: the report be received	
34.3	Payroll FINAL (3.17/18)	
	The report was now finalised and, as there had been no changes to action dates and owners of the actions since the initial presentation, it was noted as a matter of formality.	
	RESOLVED THAT: the report be received	
34.4	Follow-up FINAL (4.17/18)	
	The report was now finalised and, as there had been no changes to action dates and owners of the actions since the initial presentation, it was noted as a matter of formality.	
	RESOLVED THAT: the report be received	
34.5	High Needs Control Framework FINAL (5.17/18)	
	The report was now finalised and, as there had been no changes to action dates and owners of the actions since the initial presentation, it was noted as a matter of formality.	
	RESOLVED THAT: the report be received	
34.6	Sub-contracting Controls	
	The Internal Auditor presented the report.	
	The report is an ESFA requirement.	
	The audit certificate provides assurance that the 3 sub-contractors undertaking provision on behalf of the College are managed in accordance with regulations/requirements??	
	6 management actions had been agreed as part of the review and have been agreed with the College.	
	It was noted that sub-contracting contracts were in wind-down and no related work was being carried out this year.	
	RESOLVED THAT: the report be received	
U18.35	<u>Value for Money Report</u>	
35.1	Report presented by the Interim Executive Director, Finance. Examples given of the College's processes to ensure value for money.	
35.2	The College tenders and seeks 3 quotes where appropriate as per procedure.	

35.3	The College has purchased equipment for the Cadbury site and has sought value for money in the IT contract.	
35.4	The College is one year into its contract with Sandwell Payroll Services and the agreement for 2019/20 is due to be signed.	
35.5	The College took Cadbury onto its payroll earlier than expected as the continuation of Cadbury's payroll operation with BCC was becoming complicated due to GDPR rules. Cadbury's pay day differs to Sandwell by one day which is not ideal but has to remain for the time being due to TUPE. The changeover went through smoothly. Sandwell staff's work to ensure the transition was acknowledged.	
35.6	Agency expenditure has been high over recent years, predominantly for teaching staff. The new HR Director has taken out a 2-year deal with Morgan Hunt. Fees are approximately 30% less and there is a lower finder's fee. The College had saved money and gained control through this arrangement.	
35.7	Current energy contracts all cease in March 2019. Renegotiations will take place based on the 2 sites contracting with the same supplier.	
35.8	Governors sought an overall value for money statement for the College. Examples of the areas of interest included average group size, cost per student and cost per outcome. The Interim Executive Director, Finance explained this was usually addressed by giving examples of quotes and tendering undertaken to show value and to act as a quantitative measures. The Principal pointed out that the recent ESFA review includes comparison of all colleges which could be used as a benchmarking tool. Benchmarking software could also be used which would enable data to be collated.	
	RESOLVED THAT: the report be received.	
U18.36	<u>Health & Safety Half Yearly Report 2017/18</u>	
36.1	Report prepared by the Health and Safety Manager.	
36.2	GDPR is of great importance: training has been undertaken by all Senior Manager, with Governors receiving a GDPR training session from Roxana Pal, Director, Information Services, Exams and Funding Data.	
36.3	In response to a Governor's query, SM confirmed that the insurance company did not impose any higher premiums and the College was not considered a higher risk.	
36.4	It was noted that the numbers were rounded up rather than down which presented a more negative picture than was warranted. Health and Safety Manager to be asked to revise the way the numbers were presented in future reports.	SM
36.5 NFP		
36.6	A review of Central Sixth had identified a couple of recommendations which were now being addressed.	
36.7	Governors noted that the number of threatening behaviour incidents are very low. The largest issue was medical incidents at 81 of 202 incidents.	

	Governors asked to be provided with more detail on the medical incidents at the next meeting to provide greater clarity of the recommendations.	SM
36.8	Governors asked that the meaning of the first paragraph of page 11 be checked and confirmation brought back to the next meeting.	SM
36.9 NFP		
36.10	In answer to a Governor's query, SM confirmed there were no trends arising from the Health & Safety report.	
	RESOLVED THAT: the report be received.	
U18.37	<u>Financial Statements Auditors – Letter of Engagement</u>	
	The Financial Statements Auditors explained this was a standard Letter of Engagement.	
	RESOLVED THAT: the Committee approved the letter for signature by the Chair of Governors.	

U18.38 NFP	Financial Year-End 2017/18	
38.1	Regularity Audit Self-Assessment Questionnaire 2017/18	
	The Financial Statements Auditors gave an update on the preparation of the Regularity Audit.	
	The Regularity Audit would be signed off at the time the Financial Statements were presented to the December Board meeting.	
	There were some ongoing issues which had delayed final compilation of the report. The Financial Statements Auditors recognised that the College had been through a very busy period, with its small Finance team under pressure during the merger. The final items of evidence were now being collated.	
	The key issue from an audit and accounts perspective related to 2 aspects related to pensions:	
38.1.1	The actuaries decision on the assumptions used relating to the LGPS pension scheme.	
	<ul style="list-style-type: none"> • The WMPF Actuaries had produced some surprising numbers relating to inflation assumptions. The Interim Executive, Finance, pointed out he had included a separate column in the income and expenditure to show the impact of the LGPS Actuaries' decision and its significant downward impact on the bottom line. The actuaries of the West Midlands Pension Fund (WMPF) are known to be very conservative and risk averse so had set the figure up to 0.3% above other schemes. The Principal pointed out that notification of the decision had not been communicated until after the end of the financial year and, as it had led to an additional charge of £600k, had made it difficult to run the College. The Principal stressed the importance for the information to be provided at an earlier stage. • It was noted that other colleges had been similarly affected by the policies of the actuaries. • The FSAs explained that the timing of the decision was affected by the market year end, asset values, etc. so it was unlikely the figure would be able to be determined and communicated earlier but acknowledged that the exercise had produced strange results this year. • The Principal explained it could affect the College's ability to make decisions in future as it would be wary of receiving a significant pension bill. • The Financial Statements Auditors pointed out that the main challenge was could the College manage within these rates for the foreseeable future. The Interim Executive Director, Finance, advised that the College was already paying additional contributions of £60-70k per month to close the gap and was subsequently even more adversely affected by this additional £0.5 million cost to the budget and forecast. 	
38.1.2	The College's decision to follow the AoC's recent recommendation to release its £1 million provision for enhanced pension provision:	
	<ul style="list-style-type: none"> • This dated back to 1993 when colleges were closely aligned to local authorities. • The requirement related to a commitment to make annual payments to cover additional enhanced pension costs 	

	<ul style="list-style-type: none"> • Other colleges had already released this provision, Cadbury College did not have this provision either, so it was seen as an opportunity to rationalise the balance sheet. • The number of pensioners this related to was low at around 25 people now in their 70s, 80s and 90s. The liability ends with their demise so the provision of £1 million which had accrued over the years was too high. • The Committee decided that the matter required further consideration and the Financial Statements Auditors would pursue clarification with their Technical team and the Interim Executive Director, Finance. 	
38.1.3	Overall going concern and conclusions of the audit.	
	The Financial Statements Auditors reflected on the state of the audit advising that it was not as far forward as it needed to be, acknowledging the impact of the merger on staff time.	
	Final confirmation from the ESFA on the grant funding is awaited but the work has been done and it is not anticipated to be different to previous years.	
	Outstanding items were the regularity assurance opinion and going concern confirmation.	
	The Financial Statements Auditors confirmed they are not particularly worried about the issue of going concern: they have had various conversations around cashflow, forecast and rebudgeting exercise and are aware of the position of student numbers but they need to have extracted the right evidence to demonstrate that. There has been a lot of activity to produce the evidence required on the outstanding 5-6 items relating to the 5-6 headline opinions that the College is a going concern. Cashflow forecasts have now been received and the Financial Statements Auditors have challenged some of the assumptions as per standard procedure.	
	<p>The Committee suggested that any outstanding items could be addressed by a brief meeting of the Committee to precede the Board meeting on Monday 10 December if necessary.</p> <p>The Principal remarked that the audit should be complete by the time of the Board meeting and the whole Board able to sign off the report.</p>	
	Evidence was being gathered to support the going concern judgment. Governors stated that as long as evidence was available to support the working hypothesis the Committee was comfortable with it going straight to the Board meeting.	
	The Financial Statements Auditors advised that, from a governance point of view, it is the Board's responsibility at the point of sign off the accounts to be comfortable with the going concern judgement. The Interim Executive Director, Finance, pointed out that much of the work had been done in the due diligence process related to the Cadbury merger.	
	Regularity opinion – the Financial Statements Auditors require more evidence and are currently challenging severance payments made to ensure evidence is available on the decisions made. From the work done so far, it appears that some severance payments were made outside the Severance Policy: there may be a good reason for the College doing so but decisions needs to be evidenced in some way and nothing has been received to this effect to date. This was raised in the audit findings report last year. The Interim Executive Director, Finance, advised that he has been working	

	closely with HR and is hoping to produce the necessary paperwork.	
	Governors asked if the auditors had a sense from the evidence so far that there is an issue or problem with being outside the policy. The Principal explained that the cases had been negotiated through Eversheds and the unions.	
	SM pointed out the payments related to only a couple of staff members and the paperwork was produced a year ago. The paperwork had been archived early so it was just a matter of locating the paperwork.	
	The Financial Statements Auditors recognised this had been an unusual year for the College and it has been challenging getting the information due to staff being busy with the merger and advised that their audit will not lead to any adjustments to the accounts. They have done the vast majority of their work on the numbers that have been presented to them.	
38.2	Letter of Representation	
	BD advised that this was a standard letter in a standard audit process and was required under international procedures.	
	RESOLVED THAT: the letter be recommended to the Corporation for approval and signature by the Corporation Chair or Committee Chair??	
38.3	ILR Funding Audit 2017/18	
	The Interim Executive Director, Finance, confirmed that there had been no audit this year.	
38.4	Internal Audit Annual Report 2017/18	
	The report was presented by the Internal Auditor. The report was based on the work undertaken and reported to the Committee during the year. The Internal Auditors opinion was that the College had an adequate and effective framework for risk management and control.	
	This positive opinion can be used to form the College's statement of corporate governance and control. This was consistent with the opinion given last year. The vast majority of colleges receive this opinion. This opinion is reflective of value added view.	
	RESOLVED THAT: the Internal Audit Annual Report 2017/18 be recommended to the Corporation for approval.	
38.5	Risk Register	
38.5.1	Risk Management Report	
	Presented by the Interim Executive Director, Finance.	
	Actions have been reviewed, with scores updated and circulated to SLT. Brexit and the Cadbury merger have been added to the assurance register. The report will also be presented to the Board meeting on 10 December 2018.	
38.5.2	Risk Management Assurance Stocktake	
	Presented by the Interim Executive Director, Finance and noted by	

	Governors. The report will also be presented to the Board meeting on 10 December 2018.	
38.5.3	Risk Register – Cadbury merger	
	Presented by the Interim Executive Director, Finance and noted by Governors. The report will also be presented to the Board meeting on 10 December 2018.	
	It was pointed out that work had commenced on the IT system prior to the merger to enrol students in advance on to Sandwell's system.	
	The Interim Executive Director, Finance, explained that the risk register was reviewed and discussed at SLT meetings.	
	Governors commented that it was useful to see the Cadbury risk register referred to and reported to the Board post merger but in due course this will merge with the standard risk register brought to the Committee.	
38.6	<u>ISA 240 Self-Assessment Questionnaire – update</u>	
	The update was presented by the Interim Executive Director, Finance. There had been an update to the fraud statement since the last version.	
	The Financial Statements Auditors found the format useful, particularly in respect of the fraud statement.	
	RESOLVED THAT: the Committee consider and note the questionnaire.	
38.7	<u>Reconciliation of Period 12 Management Accounts (July 2018) to the Financial Statements 2017/18</u>	
	The Interim Executive Director, Finance, presented the accounts.	
	A breakeven position was anticipated.	
	Pension liability adjustments added £3.33 million onto the accounts, giving a profit of £3.06 million which is in line with the statements in the report.	
38.8	Members Report and Financial Statements 2017/18	
	Presented by the Interim Executive Director, Finance.	
	Governors noted that this was the draft set of accounts including narrative.	
	A couple of items were to be updated in the narrative and the updated version sent to the Financial Statement Auditors.	
	The issue relating to the enhanced pension payments would impact on the figures. The final conclusion will be included in the report to the Board in December.	
	The Chair noted that, on the basis of the current position and the remaining work, the accounts and position were expected to remain largely unchanged.	
	RESOLVED THAT: the members report and financial statements 2017/18 be accepted as they stand but would be subject to change regarding the discussions with the auditors on the Enhanced Pension Fund Provision and its release and be recommended to the Corporation for approval and signature by the Corporation Chair and Principal.	

38.9	Draft Annual Report of Audit Committee to Board of Governor and the Accounting Officer – 2017/18	
	Final report to include mention of quoracy of Governors meetings.	
	Paragraph 3 – summarising the Financial Statements Auditors' outstanding issues – to be updated when further work has been done and final position known.	
	RESOLVED THAT: the report be approved, subject to further slight modification.	
U18.39	<u>Internal Audit Progress Report 2018/19</u>	
	Report presented by the Internal Auditor. The first key controls review is planned to take place in January.	
	RESOLVED THAT: the report be received.	
U18.40	<u>Register of Outstanding Internal Audit Recommendations</u>	
	The report was presented by the Interim Executive Director, Finance.	
18.40.1	The Principal advised that centralisation of monitoring student attendance via electronic registers was already in place. Principal to liaise with the auditors to give assurance with a view to the action point being removed.	
18.40.2	Budget holder handbook due to be updated in March 2018. Date not yet reached, postponed due to Cadbury merger. The Committee recommended that this point be actioned by the new deadline due to the length of time since it was originally suggested by the auditors (almost 2 years ago). SM advised that it was planned to be done by January 2019 and would also incorporate Cadbury procedures.	
U18.41	<u>Any Other Business</u>	
	There was no other business.	
U18.42	<u>Determination of Confidential Items</u>	
	<ul style="list-style-type: none"> • Current position of audit process • Pension comments • HR matters • References to security 	
U18.43	<u>Date and time of next meeting</u> Tuesday 19 March 2019, 8.00am	

The meeting ended at 9.45am