WEST NOTTINGHAMSHIRE COLLEGE
AUDIT COMMITTEE

Minutes of the meeting held in the Board Room at the Derby Road site on Thursday 11th February 2016 at 5.00 pm

BOARD MEMBERS PRESENT:	David Overton, Chair Neil Robinson Darren Wilkinson
ALSO IN ATTENDANCE:	Andrew Martin, Deputy Principal Director Finance Louise Knott, Director of Communications, Marketing and Learner Engagement Tom Stevens, Executive Director Capital Projects and Estates Dan Hayward, KPMG Louise Tweedie, RSM

It was noted that auditors had not wanted to meet with the Committee without Management present.

		ACTION by whom	DATE by when
16.01	**DECLARATION OF INTERESTS**		
	The Chair reminded those present to declare at the start of the meeting any interests in matters to be considered. No interests were declared.		
16.02	**WELCOME INTRODUCTIONS AND APOLOGIES FOR ABSENCE**		
	Apologies for absence were received from Chris Winterton, Diana Meale and Dame Asha Khemka. Darren Wilkinson was welcomed to his first meeting as an external committee co-optee. Round table introductions were made.		
16.03	**MINUTES OF THE AUDIT COMMITTEE MEETING HLED ON 4TH DECEMBER 2015**		
	The minutes were reviewed and agreed as an accurate record.		
	AGREED: to approve the minutes of the meeting held on 4th December 2015.		
	There were no matters arising.		
15.04	**ACTION PROGRESS REPORT**		
	Members reviewed the update provided and were happy that matters were progressing as required.		

Signed : ____________________________Chair Date:

AGREED: to note the update provided.

16.05 INTERNAL AUDIT

1) INTERNAL AUDIT BENCHMARKING REPORT FOR 2014/15

Louise Tweedie introduced this report and confirmed that it was a mechanism for benchmarking the College's performance when compared with other clients in the sector. Members' attention was drawn to the section headed 'internal audit assurance levels', all agreed that it was pleasing to note that there were no red RAG rated recommendations for the 14/15 year. In terms of the substantial assurance opinions given the College is above the sector average at 62.5% compared to 57.59%. In terms of the graphs presented on page 2, assurance was given regarding the number of amber green/green recommendations. Auditors confirmed that there was nothing in their opinion to be concerned about. It was explained that the sample size is circa 106 Colleges therefore a very broad benchmarking pool.

AGREED: to note the update provided.

2) INTERNAL AUDIT REPORTS FOR 2015/16

a) Estates Management

Louise Tweedie introduced this item and drew members' attention to key matters:

- Page 2 section 1.2 is the conclusion. The internal audit opinion is that 'taking account of the issues identified the Board can take substantial assurance that the controls upon which the organisation relies to manage and identify risks are suitably designed, consistently applied and operating effectively'. A green RAG rating was provided.
- Page 6 details the action plan and the recommendations made.
  - 1.3 - the service level agreement (SLA) in place between the estates team, premises team, the post room, transport team, the College staff and external customers is not widely available to all College Staff. It is usual for such documents to be available on the intranet or shared drive for example.
  - Follow up 1 - it was explained that this is an item that has been carried forward. Testing of a sample of 5 risk assessments identified that 0/5 had a physical signature present. The health and safety assistant explained that the signed copies were kept by individual departments. The Director of Finance confirmed that to address this the College is now requiring everyone to upload assigned risk assessments online. Some on the system had not been uploaded but when site visits are undertaken as an audit they are available signed. This is an ongoing task and goes much wider than Mark Bramley and the Estates Team.

Signed : ______________________________Chair Date:

It was explained that this is a College wide process to be enforced regarding health and safety.

- Follow up 2 - reporting of actual performance against targets has not yet been presented to the Executive Team or Finance and Resources and Estates Committee. It was confirmed that this is planned for the meetings later in the academic year.

AGREED: to note the content of the report provided.

b) Learner Journey Experience

Louise Tweedie introduced this report and drew members' attention to page 2 section 1.2 which is the conclusion. Again this is a green RAG rating which means that 'taking account of the issues identified the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified risks are suitably designed consistently applied and operating effectively'. It was noted that the sample size was five learners. The Committee questioned whether the sample size was representative as they felt it was small. It was acknowledged that whilst small, it does cover different types of learners and that the intention of this audit work was a 'walk through' rather than intensive testing.

AGREED: to note the content of the report provided.

c) Risk Management

Louise Tweedie introduced this item and confirmed that the audit work carried out was a 'deep dive'. A green RAG rated opinion has been provided which means that 'taking account of the issues identified the Board can take substantial assurance that the controls upon which the organisation relies to manage the identified risk are suitably designed, consistently applied and operating effectively'. It was acknowledged that this is a key risk area but auditors confirmed that they are happy with the controls in place and there are no major concerns arising from their work.

AGREED: to note the content of the report provided.

3) INTERNAL AUDIT PROGRESS REPORT FOR 15/16

Louise Tweedie introduced this item and drew members' attention to page 2 of the report. She confirmed that all work was scheduled to be delivered and is on programme. The learner number systems report is now finalised and will come to the next meeting. The work planned for February and April 2016 was noted.

AGREED: to note the update provided.

Signed : _____________________________Chair Date:

16.06 **<u>COMPOSITE COLLEGE RECOMMENDATIONS REPORT 2015/16</u>**

The Deputy Principal Finance introduced this item and summarised the outstanding actions for 13/14, 14/15 and 15/16. An explanation was provided in the supporting document in coloured text to explain the current position. Members were entirely happy that the updates provided were self-explanatory.

AGREED: to note the content of the report provided.

16.07 **<u>WORKFORCE DEVELOPMENT ESF AUDIT REPORT</u>**

The Deputy Principal Finance introduced this item and confirmed that the College had been subject to an article 13 audit and was required to complete a pre-determined questionnaire. The audit went very well. Whilst no overall judgement has been provided there were some small recommendations made for improvement but nothing of significance. Members attention was drawn to:

- Page 5, this details the recommendations made.
- Page 13 details the Colleges responses. Again assurance was given that there is nothing of significance in terms of conclusions.

All agreed that the audit outcome was very positive and was useful for the future in terms of the College positioning itself for future ESF funding applications/bids.

AGREED: to note the content of the report provided.

16.08 **<u>RISK MANAGEMENT</u>**

<u>Top 10 KPIs</u>

The Director for Communications and Marketing introduced this item and confirmed that there had not been a huge amount of change on the register, key matters noted were:

- Work related training/employer engagement – recruitment is currently behind profile.
- Strategic planning – student applications are currently showing a downturn against the prior year.

The Committee questioned whether there is anything that the College can do to address these areas of concern. It was explained that increasing 16-18 student numbers is a huge focus for the whole of the College in terms of targeted marketing and recruitment efforts. In addition to this, the conversion of Level 3 applications is key and maintaining them once enrolled is critical. It was explained that schools tend to use the increase in participation age as a message that students are required to stay on at school and full options and choices are not often communicated.

Signed : ____________________________Chair Date:

When the team have tracked the data it is clear that the down turn is at Level 3 and this is because the school sector is 'hanging on' to higher performing students for A-Level. It was acknowledged that for schools in the area GCSE results are gradually improving and that this will make it easier for schools to make the recommendation to stay on for A-Levels. IAG in schools is a real issue and it is very difficult for the College and the FE sector generally to get access to school age students to explain the alternatives on offer.

The Committee Chair took the opportunity to discuss the reported piece in the Chad where 75 students have asked to have their English Language A-Level results reviewed. It was explained that 64 of the 75 exam results have now come back with revised results. It was explained that this level of change is very very unusual. Assurance was given that the exam results were nothing to do with teaching and that there is a good strong team in place with excellent historical results. The 25 resits reported are students who want to try and get higher grades to support their progression paths, for example moving Cs to As.

It was acknowledged that the article did not reflect particularly well on the College but frustratingly this is not as a result of any fault on the part of the College. The examining body, AQA really let the students down in terms of the errors acknowledged.

It was acknowledged that schools have a huge influence on the message to parents and students regarding post 16 options and that until more independent IAG is available the FE sector will continue to face ongoing challenges regarding recruitment.

- Strategic planning risks – an innovative and relevant offer that meets the needs of local community and businesses within the local area. There is a slight decline/worsening of the RAG rating in this area, this is because College applications for 16-18 students are down against the same point last year, however acceptances are increased on the previous year.

AGREED: to note the content of the report provided.

A full copy of the College's risk register dated February 2016 was noted. It was explained that minor changes to risk contained within the risk register were agreed by the College's Executive team. The main change relates to the external context for the College which remains the most significant risk to which the College is exposed, however has slightly reduced regarding impact following the outcome of the CSR and a much more favourable outcome for the sector than anticipated. That being said, it was acknowledged that there is still a turbulent environment and a level of uncertainty, particularly because of area reviews and the apprenticeship levy. Despite the slight positive adjustment to the Colleges risk profile it continues to operate within an environment of a high level of uncertainty.

The College's leadership team met on 15th January and considered its response to some of this uncertainty, this strategy will be further discussed by Governors at their development session which has been scheduled for 24th February 2016.

16.09 **FRS 102**

The Deputy Principal/Director: Finance introduced this item and drew key matters to members attention:

- The purpose of the report is to outline the timescale and implications of the transition to present financial statements under IFRS from 2015/16 financial year.
- The majority of large private sector organisations have already moved to IFRS together with local authorities, health authorities and central Government.
- Universities and College's financial statements are prepared in accordance with guidelines set out in the FE/HE statement of recommended practice (SORP).
- There has been extensive consultation with both the FE and HE sectors, audit firms and regularity bodies (EFA, SFA, HEFCE) on the draft FE/HE SORP in the autumn 2013 and the final version was approved by the FRC in March 2014.
- FRS 102 would change the recognition criteria for many assets and liabilities, the basis upon which some items are measured and the treatment of gains and losses compared to current UK GAAP.
- Changes in the numbers may have implications beyond just the accounts. For example where loan covenants are calculated based on profit or balance sheet measures, transition to FRS 102 could affect the headroom on these covenants. Early discussions with College bankers will be an important part of the transition to FRS 102 and whilst the main bankers to the sector will be liaising with the SFA, specific discussion to aid understanding and flag any potential issues at the earliest stage are encouraged.
- FRS 102 sets out how IFRS rules will apply to financial statements for the first full financial year after 1st January 2015. In practice for the FE and HE sector this will mean the 2015/16 financial year which starts on 1st august 2015. However, as financial statements must contain the previous year's figures to aid comparison the 14/15 (the last completed financial year) will need to be restated under IFRS rules. This will entail conversion of opening balances in the accounts as at 1st August 2014. He explained that this would involve a fair amount of re-costing.
- Locally the College finance team are preparing a project plan with specific actions to ensure that opening balances can be reviewed by the external audit service and that the accounts for 15/16 are prepared in accordance with UK Gap, the SORP and the soon to be published accounts direction handbook.

Signed : ______________________________Chair Date:

SUMMARY OF THE MAIN CHANGES

- The main changes to the financial statements can be summarised as:
  a) The income and expenditure account becomes the statement of comprehensive income.
  b) The balance sheets become statement of financial position.
  c) The statement of recognised gains and losses will be included in the statement of comprehensive income.
- The accounts will look quite different and the Board will be required to choose accounting policies for the preparation of the 15/16 financial year and subsequent opening balance adjustments.

As a general comment the Committee questioned why there are a number of options and choices to be made, rather than an imposition of expected actions. It was explained that because the changes are quite significant it is always usual to provide a number of options. The Deputy Principal/Director: Finance confirmed that he was meeting with the banks in the next 2 weeks and with them he will model the impact of changes and assess whether or not there will be any impact on covenants. All agreed that the key is to have early discussions.

DEFERRED CAPITAL GRANTS

- One of the main changes resulting from FRS 102 is the presentation of deferred capital grants in the balance sheet. Deferred capital grants relate to grants received for capital programmes from various agencies over the years.
- Currently the deferred capital grant is included as a long term liability within the balance sheet and released to the income and expenditure accounts as income over the useful economic life of the asset for which the grant was provided.
- Under FRS102 the College may choose to adopt either the 'performance' model or the 'accruals' model. The current practice is very similar to the accruals model, non-government grants must be accounted for under the performance model. The Deputy Principal Finance indicated that if the performance model was adopted then the College would have a very spiky profile.
- An adoption of the performance model will result in any grants received being released to the income and expenditure statement under the terms of the grant agreement. In practice this would create a very uneven operating position and would not match depreciation of a grant funded asset to the grant under which it has been funded. In addition, the SFA will remove the impact of capital grants for the calculation for College financial health.
- One minor change to the disclosure of capital grants is that there will need to be a split of the grants due to be released within one and after one year.

This will impact on the current ratio but will be covered by the SFA exclusion.

- As a result it is recommended that the College adopts the 'accruals model' which provides for a similar treatment under FRS 102 to that currently adopted.

External auditors indicated that they had undertaken a survey before Christmas and approximately 80% of FE sector clients had indicated that it was their intention to adopt the accruals model.

AGREED On the basis of information provided the Committee were happy to recommend that the Board adopts the accruals model for deferred capital grants.

EMPLOYEE BENEFITS

- The College will be required to calculate the value of untaken staff holiday entitlement at the end of each financial year. It was explained that this is a requirement and that that there are no options regarding this.
- This will necessitate a prior year reserve movement to create the opening provision and therefore will be reflected by movements in the provision charged or released to the income and expenditure account.
- One thing to be aware of with this change is that the creation of the provision will impact on reserves and should be discussed with the bank with respect to covenant levels. In addition a move towards a holiday entitlement year which mirrors the financial year will make the calculation much simpler and minimise the size of the provision. It was explained that the College is currently proposing a consultation process with staff to explain the changes.

PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)

- It was again explained that FRS 102 provides an accounting policy of choice to be adopted on transition. Currently the College carries its fixed assets at depreciated historic cost. Under FRS 102 it may choose to revalue its assets either in its entirety or by class type. This will have the impact of increasing net assets but will commit the College to ongoing valuation costs, as once adopted the policy cannot be changed. The Deputy Principal Finance expressed the view that, as there are no real benefits he did not feel in a position to make this recommendation.
- The benefits of changing current accounting policy for a College are very limited, essentially only relevant if there is a desire or a need to inflate asset values for any reason. However this is a once only opportunity to make this consideration and cannot be retrospectively applied following transition.

- As there are no clear reasons at present to adopt a change in accounting policy and to prevent any ongoing valuation fees, the recommendation is that the Board continues to carry fixed asset values at the depreciated historic cost and does not seek to revalue any class of asset.

External auditors confirmed that their survey had identified that 75% of the sector intended to adopt the recommendation made.

AGREED: to recommend that the Board continues to carry fixed asset values at the depreciated historic cost and does not seek to revalue any class of asset.

<u>LEASE ARRANGEMENTS</u>

- Under FRS 102 accounting for leases can result in a change in classification between an operating and finance lease which may have an impact upon the balance sheet and related disclosures.
- The change occurs because current UK GAP includes the presumption that if the present value of the minimum lease payments is more than or equal to 90% of the fair value, the asset it is considered a finance lease, whereas less than 90% is treated as an operating lease. Now that FRS 102 does not include the 90% test, classification of some leases may change. However on initial examination of the Colleges lease portfolio it is anticipated that they will be classified as operating in nature.

<u>FINANCIAL INSTRUMENTS</u>

- FRS 102 classifies financial instruments in to 'basic' and 'other', the College will also have the option of adopting the recognition and measurement criteria.
- Basic financial instruments – these include items such as trade receivables (debtors) trade payables (creditors) and straight forward bank loans.
- Other financial instruments – this category will include instruments such as foreign exchange forward contracts and loans with complex terms.
- The College utilises an interest rate management project within its current loan arrangements and this will need to be reviewed to determine whether or not it should be classified as a financial instrument or whether it is integral to the basic loan agreement. It was confirmed that there will be a lot of disclosures needed if they have to be reported separately.

<u>DEFINED BENEFIT PENSION SCHEME</u>

- The College operates its pension provisions through two schemes, the Local Government Pension Scheme (LGPS) for support and teaching staff and Teachers Pension Scheme (TPS) for teaching staff.

Signed : ______________________________Chair Date:

	• FRS 102 does not require the use of an independent actuary compared to the requirement under current UK GAP to obtain a valuation by a qualified actuary at least every 3 years, however the College would expect to follow the approach set out by the scheme trustees to the LGPS and TPS schemes in relation to the use of an independent actuary and review the valuation methodology according to the requirement of the standard and SORP. • Where the employer is unable to identify its share of the assets and liabilities of a multi-employer defined benefit pension scheme the scheme will continue to be accounted for as a defined contribution under FRS 102 as is permitted by current UK GAP. However, where a funding agreement is in place to fund a deficit on such a scheme FRS 102 requires a recognition of a liability in relation to the payments due under that agreement. • The TPS is a multi-employer scheme whereby assets and liabilities are not identified by employer. As there is no arrangement to fund any deficit in this scheme at this point in time the new standard is unlikely to have any specific impact on how the College treats disclosure of this scheme. As a general comment it was acknowledged that the enormous pension deficit will continue to exist and going forward is likely to increase. The Committee questioned whether there would be any impact on BKSB regarding the changes. The opinion given was that no there would not. AGREED: to note the update provided. The Deputy Principal/Director: Finance confirmed that the proposals regarding FRS 102 would be scheduled for Board approval at the April 2016 meeting.	Deputy Principal Finance	April 2016
16.10	<u>**CONFIDENTIAL ITEMS**</u> It was agreed that confidential items would be recorded separately.		

Signed : ______________________________Chair   Date: