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THE SIXTH FORM COLLEGE - COLCHESTER
Minutes of the Audit Committee Meeting No 58
23rd August 2017

Chair Nick Gerrard

Present David Morran, Andy Beatty,

In Attendance Allan Tucker, Graham Rayner, Anne Johnson, John Stenhouse, C Goldsworthy

Clerk Tina Johnson

58.1 **Apologies for Absence**

Apologies were received and accepted from Peter Barker

58.2 **Any Other Business**

None.

58.3 **Declarations of Interest**

There were no declarations of interest.

58.4 **Determination of Confidential Items**

No confidential items were identified.

58.5 **Minutes of Meeting No. 57 held on 28th November 2016**

The minutes were agreed and signed as a true record.

58.6 **Matters Arising**

58.6.1 57.10.10(i) – Unused Bank Accounts
The Finance Manager informed the meeting that the two accounts (Deposit Account and US Dollar Account) have a nil balance and zero operating costs. A further update will be given at the next meeting.

Action: ATu

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57.10.10(ii) – Authorisation and/or Review of Journals Processed by the Finance Manager

In relation to the recommendation of the Auditor that ‘consideration should be given to authorisation and / or review of journals processed by the Finance Manager’ it was noted that this year, all journals have been signed off by the Principal as Accounting Officer and technical accounting journals countersigned by the Finance lead governor during their regular meetings with the Finance Manager. The new procedure will be written into the Finance Office operating manual. Governors indicated that they were satisfied that the management response provided adequate controls.

57.10.11(i) – Depreciation Policy

The policy is being kept under constant review.

58.7 Review of the financial documents to be attached to the Initial ESFA Academy Conversion Application Form

58.7.1 The Finance Manager presented the financial documentation to be attached to the Academy Application.

58.7.2 It was noted that in June 2017 the ESFA provided further direction regarding the submission of college accounts for the year ending July 31st 2017.¹ As the College is in the process of applying for academy conversion the College was only required to submit a 2 year plan. During the summer period the two year plan has been extended to a 3 year plan to satisfy the requirements of the ESFA initial conversion application. The three year plan aims to provide in detail the financial impact of academisation based on an initial 13 month accounting period (July 2017 to August 2018)

58.7.3 The Finance Manager ‘walked’ governors through the key assumptions used to generate the 3 year financial plan including; planned and anticipated staffing efficiency gains, curriculum planning, examination fees and depreciation.

58.7.4 Governors agreed that the documentation provided a clear indicator of the financial benefits of academisation.

58.7.5 Governors thanked the Finance Manager for producing the documentation required for the conversion application.

¹ ESFA has agreed special arrangements for colleges planning to merge with another college or to become an academy. For such changes scheduled between July and November 2017: Dissolving corporations should submit a 1-year plan with estimated outturn for the current year

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58.8 External Audit Plan 2016/17 year

58.8.1 Governors considered the RSM Audit Plan for the year ending 31 July 2017. In response to governor questions the following points were noted:

58.8.2 It was noted that the key areas of audit focus/risks affecting the audit plan are fundamentally the same as in previous years.

58.8.3 RSM's fees for audit and assurance shows an increase from £15,725 to £16,340. The increase relates to:

- i) Inflationary rise - in relation to the Financial Statements Audit, Regularity Assurance and TPA Assurance.
- ii) Independence Review costs - as the College has had the same audit manager and partner for 10 years and RSM are obliged to either replace her with another partner or carry out an independence review. RSM have quoted £900 to carry out additional work to verify the College's audit manager /partner's independence.
- iii) Academisation - additional one-off work will be required in respect of Going Concern as a result of the potential conversion to academy status. As the College may not exist in its current form for 12 months from the date of approval of the financial statements (anticipated to be December 2017) additional disclosure in the financial statements is required, along with an additional paragraph in the audit report. Therefore RSM have added a fee of £1,000 for the Going Concern work to reflect the fact that the College is to be dissolved if Academy conversion takes place.²

58.8.4 The Finance Manager explained that the audit fee proposal also includes a sum of £975 for a financial statements audit in relation Fuel Channel Limited. Following email correspondence RSM, the Finance Manager will be making the company 'properly' dormant and therefore moving forward there will no longer be the need for an audit.³

58.8.5 Governors concurred with the Finance Manager, that given the potential change to academy status it would be wise to retain the current RSM audit manager/partner.

58.8.6 Governors asked for the wording on page 10 of the plan to be amended to reflect the current operating procedures of the Governing Body.

Action: ATu

Internal Controls

58.8.7 In the context that the Committee had previously agreed that additional testing on internal controls should take place (on a five year rolling programme). It was agreed

² This amount will be recoverable through the Transition Grant

³ There may be a small fee this year

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to ask RSM UK to carry out the external assurance work, subject to an agreement of the area to be covered and fees. A decision will be made as to which area should be tested at the next meeting.

Action: Clerk

Self-Assessment Questionnaire (Regularity & Propriety) 2016 – 17

- 58.8.8 Governors were reminded that the JACOP 2016-17 requires the Regularity Audit Self-assessment Questionnaire (SAQ) to 'be considered at an appropriate committee of the College before the commencement of the final Audit'. The signed SAQ will therefore be presented at the Governing Body meeting held on 11th October 2017.⁴

Action: Clerk/ATu

58.9 RSM report on College Learner Number Systems

- 58.9.1 Governors considered the substantive funding review (mock funding audit), undertaken by RSM at the request of the committee⁵

- 58.9.2 The review involved a sample of 30 learner files, selected at random. The files were tested to ensure that the College is compliant with the 2016/17 Funding Rules. The review was undertaken in accordance with the ESFA's audit methodology which is designed to ensure providers manage the key risks relating to the ESFA's funding and that public funds have been used appropriately and for the purposes for which they were intended. The funding value at the time of the RSM visit was £12,208,396.98 and the testing represented £120,764 (0.99%).

- 58.9.3 Governors considered the RSM report and the management responses to the findings. Overall 7 areas were highlighted as 'requiring action by management'. 3 of these areas were defined as low priority, 2 medium priority and 1 high priority. It was noted that in most instances the College does not agree with the priority levels assigned to each finding.

- 58.9.4 Assistant Principal, Anne Johnson gave an overview of the funding review process. The concerns that college management had raised in response to the findings were highlighted. It was noted that in most instances the College does not agree with the priority levels assigned to each finding. The College is particularly concerned with the 'high' priority level assigned to the finding re: the correct recording in the ILR of the number of Planned Learner Hours for the academic year. It was noted that this particular issue isn't one of fraudulent activity but is simply reflecting the methodology used to calculate the required ILR returns.

- 58.9.5 RSM have reported that the methodology used to record Planned Learner Hours is not in accordance with the ESFA Funding Guidance which stipulates that the

⁴ The SAQ includes the College's policies and responses on the matters of Fraud, Whistle-Blowing and Regularity.

⁵ Part of the rolling programme of additional testing [minute 58.8]

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planned hours recorded in the ILR should be those that are 'timetabled organised and/or supervised by the institution, and take place in line with the institution's normal working pattern to deliver the study programme during the funding year 2016/17'. RSM have indicated that should the college be selected for an ESFA funding audit it is their view that the College will be unable to demonstrate compliance with the funding guidance in relation to the recording of planned hours.

58.9.6 Governor expressed concern that the management response did not wholly appear to satisfy the point raised by RSM or satisfy the requirements of the ESFA ILR guidance. Assistant Principal Anne Johnson explained the college's rationale for the approach taken as follows:

- Given the high priority designation to this area by RSM, the college undertook further extensive investigation and modelling regarding students planned learning hours however, given the complexities of the College curriculum a pragmatic (reasonable) approach was taken to allocating planned learner hours (as recorded in the ILR) – which reflects actual delivery.
- Students at College follow relatively heavy programmes of study (in relation to the FE sector as a whole) which means that the vast majority of students exceed the full time requirements of 540 hours (450 at age 18+). This means that for some subjects there may be an element of inflation there are in reality equal areas of deflation. Therefore the College is not making any unsubstantiated funding claims.
- Planned learning hours will need to be extensively reviewed in 2018/19 following the College's decision to offer 'linear' 2 year A Level Programmes of Study to the majority of students (3 courses will become the norm).
- The College would be able to demonstrate compliance with the requirements for full-time hours.

58.9.7 It was noted that the approach detailed in the funding guidance is often aimed at GFE institutions and therefore, in some cases, the required methodology is not suited to a Sixth Form College (SFC). For example, a student's learning aim in an SFC is derived by nominating one of their subject choices. However, if the student chooses to drop this course (even though they continue with their other three subject choices) the student is deemed not to have been 'retained' thereby affecting the College's retention factor (used in part to calculate the lagged funding per student- therefore affecting all students).

58.9.8 The Assistant Principal reminded governors that this particular point relates to planned learning hours and any further changing the recording methodology for the current year, to satisfy the issue raised, would be very resource intensive as it would require data base staff to consider and extract relevant detail from the timetable of each individual student. Governors recognised that the College does not have a large data base team and therefore additional resources may be required.

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58.9.9 Making reference to the ESFA provider support manual for 2017-18 governors suggested that the above approach falls short of satisfying the ESFA funding guidance and therefore further adjustments should be made to the Planned Learner Hours recording methodology for the 2017-18 year. Governors maintained that the methodology used must comply with the ESFA funding guidance and should therefore be changed for the 12th December 2017 ILR return and subsequent ILR returns during the 2017-18 year.

58.9.10 It was agreed that the Assistant Principal's suggestion to discretely record implied pre-planned learning hours e.g. examinations, additional tuition sessions etc. on the ILR would be a pragmatic approach to satisfying the guidance for the 2017-18 year.

An update on action taken for the December ILR return and action to be taken in respect of the 2018-19 year will be given at the next meeting.

Action: AJo

58.10

Risk Register and Board Assurance Map

58.10.1

Assistant Principal, Graham Rayner, gave an overview of the risk Management arrangements in place for the College and updated governors on the risk management review process. The current register is in the process of being reviewed and will be presented to the committee at the next meeting.

Action: GRa

58.10.2

A detailed report had been presented to the July Governing Body meeting following the Grenfell Tower disaster. Subsequent to the disaster the college undertook a risk review and decided that there was no need to change the current risk rating in relation to breeches of Health & Safety legislation and/or the critical incident management plan and no amendments were required to the emergency evacuation procedures.

58.10.3

In response to governor questions it was noted that the risk in relation to the reduction in student numbers (due to the demographic dip in the number of 16 year olds locally) does not need to be revised, as the College has planned and budgeted for the anticipated reduction.⁶

Governors requested that:

58.10.4

- a new point be added to the risk register relating to the failure to comply with ESFA funding guidance.

⁶ Minute 57.11.5 'The net risk for planned student numbers has increased in recent years due to the impact of changes in Government funding methodology, recent turbulence and uncertainty in post 16 education and the local demographic (falling number of 16 year olds locally). However, this risk is mitigated as far as possible as the College constantly reviews its marketing, admissions and enrolment strategies. It was noted that the student numbers target was not met for the 2016/17 year - enrolment figures were down by 2%.'

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- where appropriate, the email addresses of staff shown in the disaster recovery plan be amended to show external rather than college email addresses

Action: GRa

58.11 Policies and Procedures

The Fraud, Bribery and Anti-Corruption Policy will be brought to the next meeting for approval.

Date of the Next Meeting

Friday 24th November 2017 @ 10.30am

There being no other business the Chairman closed the meeting at 3.40pm

Signed:

Dated:

Chair