The Sheffield College

Audit and Risk Assurance Committee

Date:	26 June 2017
Venue:	The Board Room, Sheffield City College
Present:	Neil Fletcher – Chair Kathy Atkin Seb Schmoller Kim Streets
In attendance:	Rav Garcha, Financial Consultant Madeline Hawley, Manager, Grant Thornton Phillip Keown, Director, Grant Thornton Richard Lee, KPMG Alison Shillito, Clerk to the Corporation

Action

17/2/1 Apologies for absence

No apologies for absence were received.

17/2/2 Declarations of Interest

Neil Fletcher declared his interest as a member of staff of Sheffield Hallam University in relation to consideration of the Internal Audit report on HE Partnerships.

17/2/3 Minutes of the meeting held on 20 March 2017

The minutes were approved as an accurate record.

17/2/4 Matters Arising: Minute 17/1/7.2 refers - Procurement and payments - report to Committee members

4.1 The Clerk presented a paper summarising follow-up action and correspondence between the Executive Director of Finance and Resources and Members about the controls on use of College credit cards.

4.2 The Committee noted the summary and endorsed that it had addressed the queries arising from the IA Review considered at the meeting.

17/2/5 Accounting Policy Change – treatment of deferred capital grants

5.1 The Financial Consultant introduced the paper, explaining that the introduction of FRS 102 had given FE colleges the option to choose either to continue to treat capital grants on an accruals basis in preparing their accounts or to move to a performance basis. Last year the College had decided to continue previous practice of using the accruals basis. The Consultant recommended to the Committee that the College should move to a performance basis for treating the capital grants in accounts because this would make the income reported on the College's balance sheet be a fairer representation of the amount that the College actually generated.

5.2 The Committee commented that there had been a positive decision to retain the accruals approach in the first year of FRS102 and considered carefully the benefits and potential risks of making this change including the following issues.

i) Claw-back of grants – members asked whether the change would down-play the risk of the grant being repayable. The External Auditor said in his opinion any proposal by the College to dispose of property (part) funded by a grant would be subject to ESFA approval, which may be subject to conditions about use of any funds generated. In the event that the College ceased to operate then this would be dealt with under the new Insolvency regime and an Administrator or Special Administrator would deal with the transfer of assets.

ii) Impact on Income and Expenditure account - it was commented that potentially the change would show external lenders a worse balance sheet position whereas funders would see a better position. The Financial Consultant commented that the ESFA Health Score should be unaffected by the change as it was calculated excluding capital grants. Most of the covenants attached to the College's long term loans also excluded this income and depreciation. One covenant did not exclude these and it would be affected negatively by the change. The College would not meet the covenant this year under either method calculation.

iii) One of the reasons for making the change is that the College is streamlining back office finance functions. The accruals basis requires the finance team to process monthly transactions for the income and depreciation Changing to the performance basis removes the need for this processing. The change is done once, audited and noted in the year that the change is made. It removes complexity and unnecessary processing.

iv) It was confirmed that there is no impact from the decision on the work done by the College on the UTC accounts. The College provides finance services to UTC multi academy trust but the UTC governing body decided on presentation of accounts.

v) The Committee asked about the approach taken by other colleges. The Financial Consultant estimated that the majority of colleges continued operating on an accruals basis.

vi) Members were concerned about the impact of the change on continuity and transparency. The Financial Consultant explained that the accounts when the change is made would include restated balances for the prior year, calculating all figures on the same basis. There would be a note referring to the change to explain the difference in the figures from the previous set of accounts.

5.3 To resolve queries about the potential impact of the change, the Chair asked the Financial Consultant to calculate detailed projections of the College's financial health score and covenant performance under both the accruals and the performance bases. The Committee agreed to authorise the Chair to <u>recommend approval</u> of the proposed change to Governing Body, subject to | Financial Consultant

i) being satisfied that the impact of the change on the College's financial health scores and covenants would be a fair reflection of the true position; and

ii) the incoming Executive Director of Finance and Resources, having seen the detail, being content with the change.

17/2/6 Termly review of Risk Management Framework 2016/17 and any proposed changes for 2017/18 Confidential

6.1 The Financial Consultant reported that the update had been prepared prior to the Grenfell fire highlighting the fire risk of certain types of building cladding and insulation. The College is assessing this and has so far identified 19 different types of cladding across its estate. The College Estates Manager is working with the building contractors, design engineers and SY Fire Service to ascertain the fire resistance of materials used in the cladding and to ensure the fire risk assessment and mitigating actions are updated. Estates Manager

6.2 Members recommended that the scale and ordering of risks on the register should be reviewed. A member said that he had written to the previous Executive Director of Finance and Resources about this commenting that the interpretation of 'imminence' meant that the College's highest and most critical risks were lower on the register than minor operational issues. In order to be a more useful management tool, it was suggested that the register should be reviewed to prioritise major, college-wide issues with imminence being calculated on the likelihood of the worst risk happening rather than the timing of an activity.

6.3 The Committee considered and noted the risk register and recommended that the incoming Executive Director of Finance and Resources make substantial changes to the way the Register is organised to make it a useful tool for risk management. EDF&R

17/2/7 Management Review of Internal Audit Recommendations

7.1 The Committee considered the report and noted that there were some overdue actions to be completed. In view of the likely changes to roles, structure and personnel in the finance team, the Committee stressed the importance of the College Executive Team ensuring that good practice recommendations are carried forward and completed.

17/2/8 Financial Statements Audit Strategy for year ended 31 July 2017 and Fees

8.1 Richard Lee, of KPMG, the College's external auditors presented the plan. The strategy included a proposed level of materiality of £550,000 with any queries over £36,000 being reported to the Committee. The risks to be reviewed would include:

i) that the College continues to be a 'going concern' in view of the declining demographic and flat income projections in 2016 - 19;

ii) compliance with covenants and how the College mitigates the risks of breach. KPMG have recommended that College tries to obtain a waiver from the lenders prior to preparation of accounts.

8.2 If the College were to change its treatment of deferred capital grants discussed earlier, external auditors would need to audit the restatement of the annual accounts figures for 2015/16. This should not require an undue amount of additional work.

8.3 The Chair commented that two subjective provisions in the accounts - the provision for holiday pay, introduced by FRS 102, and the bad debt provision – ought to be reviewed as the latter had been increasing steadily for a few years and stood at just under £1m. The Chair said that he would be concerned if the 2017/18 budget and/or three year plan relied on a change in subjective provisions to achieve a particular forecast.

8.4 The Financial Consultant commented that the financial plan for next year proposes no increase in bad debt provision as it is already significantly higher than required for current debts. This would mean that approximately £100,000 would not need to be put aside for bad debts.

8.5 Richard Lee confirmed that external auditors would review the provisions against relevant policies. External auditors would not expect a change in the holiday pay provision as there had been no significant change to the staff establishment. The Bad Debt Policy ought to determine the level of the provision which is subject to review annually.

8.6 The Chair asked for the holiday pay and bad debt provisions to be calculated in two ways – an estimate and rationale for the lowest possible provision and what the highest possible provision might be for both those items. The Chair and colleagues at KPMG to review those figures to consider whether the planned provisions are appropriate. Financial Consultant

8.7 The Committee approved the draft plan.

17/2/9 Internal Audit Reviews: progress report

The Internal Audit Manager presented the progress report which noted that IA had delivered 43 days to date against a budget of 88 days. The reduced number was due to decreased activity and the College and IA agreeing that it would not be timely or relevant to undertake certain planned reviews. Some reviews, such as preparation for introduction of the apprenticeship levy, had been deferred to 2017/18 when there would be more activity to review. The Committee noted the progress report and considered the four Internal Audit Review reports as below.

17/2/10 IAR - Capital projects – benefits realisation

10.1 This report considered the extent to which recent capital developments at Hillsborough and Olive Grove sites had achieved their projected benefits. The reports finding was that some have been achieved but have not been achieved or require a longer timeframe. The IA Manager proposed that this should be treated as a live review that will change over a period of time.

10.2 It was commented that under-performance in some KPIs was most likely due to cuts in the Adult Skills budget which had not been known about at the time when the plans were made. The Committee sought clarification as to whether the figures for under/over performance against targets were percentage points or percent and the IA Director agreed to clarify this.

10.3 The Committee requested that the KPIs in the report be clarified with a short commentary on the findings (as set out in the Estates Manager's report) to inform lessons learned for future developments. IA Director

17/2/11 English and maths arrangements

11.1 The scope of this IAR was to review the measures the College had put in place to ensure that learners are recorded effectively; information on prior qualifications is captured accurately; and they are correctly enrolled on appropriate English and/or maths courses to meet the Condition of Funding. The IAR found that a number of control measures had been put in place to achieve this.

11.2 The Committee noted the report including the medium priority recommendation that exemption forms for students with learning difficulties be completed earlier and closer to enrolment.

17/2/12 Expansion of Advanced Learner Loan provision

The Committee noted the report, which raised no significant issues and included one low priority recommendation.

17/2/13 Development of HE Partnerships

13.1 The Committee considered the report that included a number of good practice recommendations including the following.

i) Declarations of interest should be consistently reported and recorded in minutes. The IAR had suggested that the College should seek reciprocal arrangements for board memberships with its validating universities. The College had responded that this would not necessarily be a practicable or strategic way of fostering strategic partnerships or tackling transparency. The Clerk will ensure that interests are made clear within minutes.

ii) How the College develops it longer term HE strategy and chooses strategic partners in future. Previously some partners had been chosen on a course by course basis and others for regional or competitive reasons.

iii) The time period of the HE Strategy should be extended. Developing HE programmes is a long term commitment with longer timeframes for developing, marketing and running out provision. The College should have a strategy that recognises these timescales.

iv) It was noted that the College's retention rates for its HE provision are slightly lower than for other types of provision.

13.2 The Committee noted the report and recommended that it should be presented to a meeting of Governing Body to inform consideration of the College's annual report on HE quality in October 2017. on HE quality — Clerk

17/2/14 Draft Internal Auditors' Needs Assessment and Plan for 2017/18 and Fees

The Committee noted that the IA Review plan for 2017/18 was in preparation and would be submitted to the next meeting of the Committee in September 2017. — IA Manager

17/2/15 Appointment of Chair for the period 1 September 2017 to 31 August 2019

The Committee agreed to recommend approval to Governing Body of Seb Schmoller as Chair of the Committee until 31 August 2018, pending the — Clerk appointment of new members to the Audit and Risk Assurance Committee by Search Committee.

17/2/16 Review of meeting

Members were invited to comment on the meeting.

17/2/17 Any other business

The Committee thanked the Chair for his hard work chairing the Committee for the last five years and his service to the College over the last eight years.

17/2/18 Schedule of meetings for 2017/18

Monday 25 September 2017 at 8.00 am in the Boardroom, City Campus

Monday 4 December 2017 at 8.00 am in the Boardroom, City Campus, Joint meeting with FEGP Committee

Monday 19 March 2018 at 8.00 am in the Boardroom, City Campus

Monday 4 June 2018 at 8.00 am in the Boardroom, City Campus