

Date: 27 November 2019

Venue: The Boardroom, City Campus, the Sheffield College

Present: AUDIT AND RISK ASSURANCE COMMITTEE (ARAC)
Ian Falconer (Chair)
Chris Linacre
Michelle Macdonald

FINANCE, EMPLOYMENT AND GENERAL PURPOSES COMMITTEE (FEGP)
(until 10.30 am)
Gwyn Arnold
Peter Brooks
Angela Foulkes
Beri Hare
Saleem Rashid
Seb Schmoller.

In attendance Rob Barnett, Head of Internal Audit, RSM
Angela Foulkes, Chief Executive and Principal
Mat Godber, Executive Office Manager (note taker)
Richard Lee, Financial Statements' Auditor KPMG
Clare Partridge, Financial Statements' Audit Engagement Lead, KPMG
Mark Pearson, Director of Strategy, Planning and Systems Improvement
Kate Platts, Executive Director of Finance and Resources (EDFR)
Alison Shillito, Clerk to the Corporation
Lisa Smith, Internal Audit Senior Manager, RSM

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By whom **By when**

19/4/1 Draft Report of the Members of the Corporation and Financial Statements and supporting documents

- 1.1 At 10.00 members of Audit and Risk Assurance Committee (ARAC), Financial Statements' Auditors and Internal Auditors joined the meeting. The Vice Chair of FEGP Committee handed over chairing of the joint items to the Chair of ARAC.
- 1.2 The Chair reminded the members of FEGP and ARAC of
 - i) The purpose of the joint meeting:
 - a) to satisfy ourselves that the draft Report and Accounts for 2018/19 properly present the College's financial position, that the various formal Statements included in the Report are accurate, and that the Corporation remains a going concern;

- b) to satisfy ourselves that we can continue to support the College subsidiary companies going forward;
 - c) to satisfy ourselves that a proper external audit of the accounts has been completed;
 - d) based on the above to advise Board that the accounts be formally adopted and the various representations sought by the auditors can be given by the Chair of Governors and the CEP (as the College's Accounting Officer) on behalf of the Governing Body.
- ii) The respective roles of two committees, which are:
- a) FEGP shall comment on the accuracy of the figures and the application of proper accounting policies;
 - b) ARA advises on the appointment of the financial statements' auditor, approves the audit strategy and ensures a proper audit been done; ARA also considers any control issues arising in the audit and agrees the draft Statement of Corporate Governance and Internal Control.
- iii) the opportunity open to all members to engage with the Financial Statement Auditors directly about the audit and raise any queries about the process or the matters in their report which would not otherwise be open to members of FEGP.

19/4/2 Final Draft Report of the Members of the Corporation and Financial Statements for the 12 month period from 1 August 2018 to 31 July 2019

- 2.1 The EDFR presented the Financial Statements and invited members' questions and comments on the draft. Some of the discussion is recorded in a separate confidential minute.
- 2.3 FEGP Committee agreed that it was comfortable to approve pages 3-12 of the draft report as an accurate statement of the current performance of the College subject to correction of minor typos in the text.
- ACTION:** Chair of Governors to send corrections to EDFR
- 2.4 On the basis of the discussion, FEGP Committee also agreed to recommend approval to Governing Body of the Statement of Responsibilities of Members of the Corporation at page 23 of the draft report.

Chair of Governors 4.12.19

19/4/3 Year End Report of the Financial Statements' Auditors

- 3.1 KPMG was invited to present its report and respond to questions and comments as regards the accuracy of the accounts. ARAC would consider the management and control issues in its meeting.
- 3.2 The Engagement Lead for KPMG presented the report, highlighting the findings as follows:
- i) **Local government pension scheme** - The actuarial valuation of the South Yorkshire (LGPS) fund had significantly shifted since 2017/18. This change had

affected the whole sector. The shift had resulted in a large liability on the 2018/19 balance sheet and KPMG were following up with scheme actuaries to ensure that the figure was as accurate as possible. Members asked about the immediate impact of the valuation on the College's financial health score. It was confirmed that the EBITDA measure used for financial health excluded this figure.

- ii) **Revenue recognition** – auditors are required to assess the risk of fraud around revenue recognition e.g. to confirm that the statement of revenue in the accounts is accurate and allocated to the correct financial year. The auditors had carried out checks to confirm this and there were no issues found.
- iii) **Management over-ride of controls** – auditors are required to assess the fraud risks around management over-ride of controls. Auditors tested high risk journals, accounting policies, assumptions and methods used to prepare accounting estimates and these were all clear.
- iv) **Overall financial position and going concern** – auditors confirmed that the College was compliant with its loan covenants as at 31 July 2019, and the covenants had been re-stated for the year ending 31 July 2020 to remove Lennartz payments to HMRC from the measures.
- v) **Risks to funding in 2019/20** – Auditors noted the College had added some updates to its Regulatory Questionnaire. The College had assessed the potential impact of these on its funding in 2019/20 as 'low'. KPMG still needed to understand the basis of this forecast in finalising its opinion.
- vi) **Enhanced provision for Teacher's Pension Scheme contributions** – this was a late adjustment and Auditors needed to check the assumptions behind the adjustment to ensure it was accurate.
- vii) **Subsidiary companies** – work was ongoing to finalise the subsidiary company accounts for sign-off next week at the Annual General Meetings.

- 3.3 The Committees received the report and acknowledged that auditors remained independent and therefore in a position to issue their opinions. The Committees noted that the audit had been completed in line with the audit plan and agreed that the proposed opinions were appropriate.
- 3.4 The Committees welcomed the assurance provided by the proposed audit opinions on the College and its subsidiary companies including that there had been no impropriety issues and no significant deficiencies in internal control.
- 3.5 On the basis of the discussion of the Financial Statements' Auditors report, the FEGP Committee advised the Governing Body:
- that the Accounts and Notes to Accounts on pp 28-54 were accurate and might be adopted by the Board;
 - that the FEGP Committee had agreed the draft Report (subject to any further post balance sheet events) and

commended it for adoption by the Governing Body;

- that the Statement of Responsibilities was accurate and the Governing Body might approve the statement and authorise the Chair of Governors to sign the statement on behalf of the Corporation for inclusion in the Financial Statements.
- that the College continued to be a going concern.

19/4/4 Letter of support for Sparks Solutions Limited (8857469)

- 4.1 Angela Foulkes, as a Director of the company was conflicted for this item and therefore did not participate in the discussion and was not included in the FEGP Committee quorum.
- 4.2 The Clerk introduced the letter of support that the Financial Statements' Auditors had requested for Sparks Solutions Limited (8857469).
- 4.3 The Committees received the proposed letter of support for Sparks Solutions Limited. It was noted that in their capacity as trustees for an exempt charity, governors should have due regard to their obligations under charity law. The Committees noted:
 - that all three subsidiary companies had been subject to an internal review in 2018/19, which had resulted in re-affirming their purpose and the continued viability;
 - a letter of support was required for Sparks Solutions Limited as it carried forward a debt to the College from a previous trading activity that had ceased;
 - the provision of the letter was not a matter requiring external professional advice.
- 4.4 Having had due regard to the Charity Commission guidance on such support, the FEGP Committee advised Governing Body to continue to support of the subsidiary companies for 2019/20 and at least until 31 December 2021 and recommended that the Governing Body authorise the Chair of Governors to sign the letter of support for Sparks Solutions Limited on behalf of the Corporation.

19/4/5 Regularity Self-assessment Questionnaire update and Reporting Accountant's Report on Regularity

- 5.1 The Clerk presented the Regularity Self-Assessment Questionnaire. It was noted that, since the draft had been approved by Governing Body at its meeting on 6 November 2019, it had been updated to report a handful of matters that had subsequently arisen and had been discussed with the Financial Statements' Auditor.
- 5.2 The Financial Statements Auditor, as the reporting accountant for regularity, commented that auditors had discussed regularity in detail, including the minor control issues that were now reported in the Year End Report, and had decided overall to give a clean audit opinion for regularity.
- 5.3 Both committees welcomed the assurance provided by the reporting account's regularity opinion. ARAC approved the

Regularity Audit Self-Assessment Questionnaire as presented, and advised Governing Body that it was as suitable for signature by the Accounting Officer and Chair of Governors on behalf of the Corporation.

19/4/6 Management Representation Letter

- 6.1 The Chair introduced the Management Representation Letter explaining its purposes and the representations sought by the Financial Statements' Auditor.
- 6.2 On the basis of the discussions, the members of ARAC and FEGP agreed to advise the Governing Body that it may confirm the representations sought by the Financial Statements' Auditor including that:
 - the accounts presented gave a true and fair view of the Sheffield College and had been prepared on a going concern basis;
 - there were no significant post balance sheet events that members know of to report;
 - Members were not aware of any frauds or allegations that have not already been disclosed to the Financial Statements' Auditors;
 - Members were satisfied with the Statement on Regularity, Propriety and Compliance and advised the Governing Body to authorise the Chair of Governors and CEP to sign this on behalf of the Board.

19/4/7 Concluding remarks

The Committees recorded their thanks to the EDFR and her team for preparation of the financial statements and the team and auditors on successful completion of the audit process.

Joint meeting concluded at 10.30 am at which point FEGP Committee members left the meeting.

19/4/8 Welcome, introductions, apologies and quorum

The Committee noted that apologies for absence had been received from Richard Calvert, Shelley Hemsley and John Timms. The meeting was quorate.

19/4/9 Declaration of interest

- 9.1 The Committee noted the standing declaration of Michelle MacDonald as a college member of staff in the Employer Engagement Team. The Committee did not require any action on this declaration for any items on the agenda and therefore Michelle counted for the quorum on all items.
- 9.2 The standing declarations of Kate Platts, Angela Foulkes and other staff of the college in attendance were noted. No action was required for any items.

19/4/10 Confidential meeting with External Auditors

- 10.1 The members requested a confidential meeting with External Auditors and Internal Auditors and the College officers in attendance withdrew. The discussion is recorded in a separate

confidential minute.

- 10.5 College officers re-entered the meeting and the Chair moved to continue consideration of the ARAC aspects of the Members' report and financial statements.

19/4/11 Financial Statements' Auditor's Year-End Report and the Reporting Accountant's report on regularity

- 11.1 The Audit Engagement Lead introduced the remaining sections of the report.
- 11.2 The Committee noted Appendix 1, required communications with Audit Committee.
- 11.3 The Committee considered the Audit Recommendations (Appendix 3) as follows

Pensions – the auditors recommended that the College obtain additional assurance on the valuation of its assets and liabilities to ensure the valuation had taken into account recent legal case precedent. The auditors acknowledged that obtaining assurance on the actuarial valuation of the liabilities of a scheme was difficult but from an accounting prospective the figures needed to be as accurate as possible and, from a business point of view, leaders were required to understand the risks.

Fixed Asset register – auditors recommended an asset existence check should be undertaken. The asset register should be updated to write off any assets that are fully depreciated and that have been disposed of. This would enable the College to understand the condition of the assets and its economic life /replacement cost.

The EDFR said that this was a substantial piece of work as the original asset register was organised at whole building level. Departments held their own operational asset register and reconciling the registers would take time. The conditions survey in progress would assist with this and 31/7/2020 was realistic timescale to complete this work.

The Internal Audit Plan included a review of control of fixed assets in 2019/20 which would review the effectiveness of the controls put in place.

The Committee endorsed the proposed approach but advised that, given the amount of work likely to be involved, the level of detail in the data would need be carefully balanced with value that holding that detail would add.

Bank reconciliations – the Committee endorsed the recommendation that the findings of the monthly reconciliation should be completed by investigating and clearing reconciling items with write-offs, as appropriate.

Expenses claim - there was one claim in the sample that was non-compliant. The auditors were not querying that the claim was proper but the HR Payroll Manager would be picking up the process issues.

11.4 **Appendix 4 Previous Year Audit recommendations outstanding**

The Committee noted the recommendations outstanding. These supported the view that a few relatively basic controls agreed in December 2018 were not always being consistently applied throughout the year. These actions should be brought forward and compliance ensured (see actions below).

11.5 **Appendix 6: Auditor Independence**

The Committee approved the additional work by the External Auditors and agreed that it was satisfied with KPMG's independence to perform the duties of External Auditor.

11.6 **Audit Fees**

The Committee agreed that the fees for the Audit were in accordance with the plan and tender, as previously approved by the Governing Body.

11.7 On the basis of the discussion the Committee agreed that:

- the External Auditor remained independent and was in position to issue opinion;
- the External Auditor had completed the 2018/19 audit in accordance with agreed audit plan;
- the proposed opinions were appropriate;
- the Committee accepted the proposed fees and authorised the EDFR;
- welcomed the assurance provided in the proposed audit reports that there were no impropriety issues and no significant deficiencies in internal control;
- **ACTIONS**
 - the control comments in the findings section of the report be noted and monitored to check compliance: ARAC 05.02.20
 - the recommendations identified in the report be included in the Management Review of Internal Audit and External Audit Recommendations with an update on progress at the next meeting. EDFR 05.02.20

19/4/12 Final Regularity Self-Assessment Questionnaire

12.1 The EDFR introduced a confidential report showing the issues added since the meeting on 18 September 2019.

12.2 The Committee approved the completed questionnaire and recommended approval to the Governing Body to authorise signing by the Chair of Governors and the Chief Executive and Principal (CEP), as the Accountable Officer.

19/4/13 Minutes of the meeting held on 18 September 2019

13.1 The Committee approved the minutes of the meeting held on 18 September 2019 as a true record.

19/4/14 Matters arising and action record

14.1 Minute 18/4/6.4 – Compliance with consumer protection law and Competitions and Markets Authority (CMA) guidance to Higher Education providers

The Committee noted the progress and agreed that a new deadline of 31/1/20 so that the proposed changes could be reviewed by FEGP Committee.

FEGP 31.1.20

14.2 Minute 19/2/13 – Whistleblowing Policy

The CEP reported that the revised induction pack, which included information on the Whistleblowing Policy as requested by ARAC, had been implemented. The Committee agreed the action to be marked as complete.

Clerk 31.12.19

14.3 The Committee expressed satisfaction that the action record was complete and that it incorporated all matters arising from the September meeting. The Committee noted the report and approved the removal of the completed items and those agreed as completed above.

19/4/15 Strategic Risk Register update

15.1 The Director of Strategy, Planning and Systems Improvement (DPSI) introduced the updated Strategic Risk Register.

15.2 The Committee considered the latest changes to the Strategic Risk Register and its impact on the assurance plan as follows:

Risk 13 – apprenticeship provision – members noted the increasing risk around this around and that the Teaching, Learning, Quality and Student Experience Committee was closely monitoring how the College is addressing the fundamental issue of apprentice achievement via the quality assurance and quality improvement processes. In terms of the financial impact, the ESFA would be looking at the College's business case for continued funding.

15.3 The Committee agreed they were satisfied that the new risks and updates to existing risks demonstrated that senior managers were continuing to identify and manage the College's strategic risks appropriate. The Committee noted the report, agreeing that it did not prompt members to seek to commission any new assurance activities.

19/4/16 Management Review of Internal Audit and External Audit Recommendations

16.1 The EDFR presented the report on progress. Overall, most actions had been completed by the deadline.

16.2 The Committee welcomed the significant progress senior managers were making on closing actions and agreed

ACTIONS

i) that Item 114 be closed;

ii) that all completed actions be removed from the tracker;

iii) that the external audit 2018/19 actions be added.

EDFR 05.02.20

19/4/17 Assurance from Governing Body committees on management of risks within their remit 2018/2019

- 17.1 The Committee received the annual reports from the Governing Body committees and welcomed the assurance in the reports that committees were actively monitoring and supporting senior managers to manage the risks within their remit.
- 17.2 The Committee received a report on the progress on the College Improvement Plan and welcomed the assurance it provided that this critical risk was being addressed.

19/4/18 Internal Audit Annual Report 2018/19

- 18.1 The Head of Internal Audit, RSM, presented the annual report and the overall assurance opinion based on recommendations over the year. The Committee noted that:
- i) all reports made indicate reasonable and in one case substantial assurance;
 - ii) management had responded positively to all the recommendations made by the Internal Audit Service (IAS), which the Committee welcomed;
 - iii) there had been good progress on audit actions tested via the annual follow-up internal audit review. Members welcomed in particular the finding that of 23 actions sampled, 22 had been confirmed as completed and there was good reason for continuing action on the one action that remained ongoing. This was a positive indicator of the effectiveness of the process.
- 18.2 The Committee received the report and considered it as follows:
- i) Members commented that the basis of the opinion in the annual report was clearly set out.
 - ii) The opinion provided positive assurance that the Committee could use to support its own Annual Report to the Governing Body and external stakeholders;
 - iii) Members noted the independence of the IAS;
 - iv) Members agreed that the IA Plan for 2018/19 had been satisfactorily completed
 - v) Members welcomed the update that the protocols for college staff to feedback to IAS and the 'ways of working' between Executive and IAS were now in place and working.
- 18.3 The Committee noted the report and was pleased to report to the Governing Body the positive assurance that it provided, which supported the Committee's opinion in its annual report to the board.

19/4/19 Internal Audit Review report: Online provision

- 19.1 The Head of Internal Audit, RSM, presented the IAR report commenting:
- The additional IAR had been commissioned to assess the continued appropriateness of recommendations from a

previous IAR;

- The College did not offer much if any provision wholly online;
- The digital strategy was still in development and the IAR recommendations could help shape that.

19.2 The CEP commented that the original IAR by the former IA service had been in the context of a previous strategic plan that intended to grow the College's wholly online provision. The College now envisaged online provision complementing on-site provision, not replacing it; to offer students innovative and more engaging learning and assessment.

19.3 The Committee noted the report and approved the proposals for management action in response to the recommendations identified in the reviews.

19/4/20 Internal Audit Review report – Health and Safety

20.1 The Head of Internal Audit, RSM, presented the IAR report commenting that the findings of the IAR had led to the opinion of partial assurance. This was mainly due to:

- A lack of evidence of training for some role holders including governors;
- Some of the Health and Safety information for visitors is not clearly displayed and it should be and
- The IAR identified examples of non-compliance.

20.2 The EDFR commented that this IAR had been prioritised for attention in 2019/20 as the College wanted to review and refresh its approach to Health and Safety. Members asked if the propped date for completion of training (February 2020) should be brought forward. The EDFR said that the training for fire wardens and other main role holders would be completed as soon as possible and earlier than 5 February 2020. The deadline had been set to align to the next ARAC meeting date as requested by the Committee previously.

20.3 The Committee noted the report, the partial assurance opinion and approved the management actions proposed in response to the recommendations identified in the reviews. The Committee also agreed the following.

ACTION

The Health and Safety IAR to be reported to the next meeting of the FEGP Committee as an appendix to the Termly Health and Safety Report.

EDFR

08.01.20

19/4/21 Internal Audit Progress report 2019/20

21.1 The Head of Internal Audit, RSM, presented the IAR progress report, some of the discussion is recorded in a confidential minute. The Head of IA reported that the IA Plan 2019/20 was on target and all scoping had been done for reviews planned to the end of January 2020.

21.3 The Committee received the progress report and commented positively on the inclusion of the feedback data and the

assurance that the IA Plan for 2019/20 was well underway.

It was further noted that the IAS had provided an assurance map, in response to the Committee's request, and it was agreed that the Committee should consider this further at its next meeting. The Committee agreed the following:

ACTIONS:

Carry forward discussion of the IA assurance map to the next ARAC meeting. Clerk 05.02.20

19/4/22 External reviews

22.1 The Committee received one of the reports that was awaited (European Social Fund (article 125) Audit). It was noted that there had been delays to the audit process for the apprenticeship funding and MATCH funding audits, which had been postponed as the original date had coincided with the Ofsted visit.

22.2 The Committee welcomed the assurance given in the on the spot audit of compliance with ESF Funding Rules and agreed the following:

ACTION:

Update the ARAC annual report to reflect that the other ESF audits would fall into the 2019/20 reporting period. Clerk 11.12.19

19/4/23 College Control Policies

23.1 The Committee received the report noting that members had previously raised concern about lack of compliance with policies and the assurance from the CEP that this would be partly addressed by the ongoing work to review and revise policies to ensure completeness, consistency and simplicity.

23.2 The Committee noted the written report attached to the item which was the annual update on how the College's current policy framework ensured that the College complied with its legal duties. This report did not seek to address the compliance issues previously identified.

23.3 The Committee welcomed the verbal report from the CEP that work on overhauling the policy framework and arrangements for publicising the policies to staff was nearing completion. The Committee agreed the following.

ACTIONS

An update to ARAC on progress on completing and publicising the totality of policies. Individual policies would continue to be considered by the committee with the remit most relevant to the policy; DSPSI 05.02.20

Further thought to be given as to how governors monitor compliance with the policies that manage the College's highest risks – e.g. via committee KPIs or periodic reports. CEP/DSPSI 05.02.20

19/4/24 Audit and Risk Assurance Committee Annual Report 2018/19

24.1 The Committee received the report, noting that it had been

reviewed at the meeting on 18 September and subsequently updated to reflect the Ofsted inspection reported in October 2019. The Committee had received further assurance at this meeting that should be reflected in the report including:

- the board self-assessment report received from SRG Committee;
- the updated Regularity Self-assessment Questionnaire;
- the External Audit and Internal Audit reports received.

24.2 The Committee approved the report as presented subject to the following:

ACTIONS

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| i) The opinions in the ARAC Annual Report to be updated to remove the conditional statements as the Committee had now seen all the outstanding items. | Clerk | 11.12.19 |
| ii) The final report to be signed by the Chair for submission to the Governing Body and the ESFA. | ARAC Chair | 18.12.19 |

19/4/25 Draft Report of the Members of the Corporation and Financial Statements 18-19 (item 1 & app A)

25.1 Based on the confirmed findings of ARAC Annual Report 2018/19, the Committee agreed to recommend approval to the Governing Body of the Statement of Corporate Governance and Internal Control.

19/4/26 Review of meeting and closing remarks

26.1 Members <u>noted</u> that next year, FE colleges with HE provision would have to meet the requirements of the Office for Students as well as the ESFA and suggested this be put on the agenda for the next meeting.	Clerk	13.12.19
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19/4/27 Date and time of next meetings

Wednesday 12 February 2020, 08:30-10:30