



Date: 23 November 2022

Venue: New Boardroom City Campus

Clerk to the Corporation

Granville Road

Sheffield, S2 2RL

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Present: **AUDIT AND RISK ASSURANCE COMMITTEE (ARAC)**
Ian Falconer (Chair of ARAC and chair of joint meeting)
Matt Ainsworth, governor
Sol Miah, governor
Saleem Rashid, staff governor (by videoconference)

FINANCE, EMPLOYMENT AND GENERAL PURPOSES COMMITTEE (FEGP) (09.30 -10.10 am)

Stephan Hollingshead (Chair of FEGP)
Holly Anderson, staff governor
Peter Brooks, governor
Angela Foulkes, Chief Executive and Principal (CEP) and governor
Beri Hare, governor (by videoconference)
David MacDougall, governor
John Mothersole, Chair of Governors
Paul Senior, governor.

In attendance: **Members of Governing Body** for Financial Statements' Auditor's report and presentation of annual financial statements (09.30 – 10.10)

- Gwyn Arnold, governor (by videoconference)
- Sam Giove, governor (by videoconference)
- Phil Wymer, staff governor

Rob Barnett, Internal Audit Partner, RSM
Angela Foulkes, Chief Executive and Principal (CEP) (for ARAC meeting 10.10 – 11.00)
Martin Harrison, Executive Director Finance (EDF)
Andrew Hartley, Executive Director Commercial and Operations (EDCO) (09.30 -10.10 am)
Robert Knowles, Senior Auditor, Internal Audit, RSM
Stuart McKay, Financial Statements' Audit Partner MHA MacIntyre Hudson
Mark Pearson, Executive Director of Strategy and Systems Improvement (ED SSI)
Alison Shillito, Governance Advisor and Clerk to the Governing Body (Clerk)
Beth Smith, Executive Assistant to the Clerk and EDP

Action

by whom by when

22/4/1 **Welcome, introductions and declarations of interest**

1.1 At 09.30 members of Audit and Risk Assurance Committee (ARAC), Internal Auditors and other governors joined the meeting. The Financial Statements'

Audit Partner was already present as they had observed the Finance, Employment and General Purposes Committee (FEGP) prior to the joint session.

- 1.2 The Chair of FEGP handed over chairing of the joint session to the Chair of ARAC. The Chair of ARAC welcomed members of both committees and other governors, noting that all members of the Board were present to receive the financial statements' auditor's report and would have an opportunity to challenge the data in the annual report and financial statements.

The clerk confirmed that both committees were quorate.

- 1.3 There were no relevant interests declared by members of ARAC. The committees noted that Angela Foulkes, Chief Executive and Principal (CEP) was a director of college subsidiary companies would not be eligible to vote in any resolution concerning the company accounts.

22/4/2 **Chair's comments**

- 2.1 The Chair reminded the members of FEGP and ARAC of

- i) The purpose of the joint meeting:
 - a) for all governors to be satisfied that the draft report and financial statements for 2021-2022 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) for members to be satisfied that the college can continue to support its wholly owned subsidiary companies going forward;
 - c) for members to be satisfied that a proper, independent external audit of the accounts has been completed;
 - d) based on the above to advise Governing Body (GB) that the accounts be formally adopted and the various representations sought by auditors can be given on behalf of Governing Body by the Chair of Governors and the Chief Executive and Principal (CEP), as Accounting Officer.
- ii) The respective roles of the two committees, which are:
 - a) FEGP shall comment on the accuracy of the figures and the application of proper accounting policies;
 - b) ARAC manages the auditors appointed by GB and ensures a proper audit has been done, considers any control issues arising in the audit and agrees the draft Statement of Corporate Governance and Internal Control.
- iii) Both committees confirm that the draft annual Members' Report is consistent with their knowledge, including the accuracy of the Statement of Responsibilities of the Members of the Corporation and Statement of Regularity, Propriety and Compliance.
- iv) The opportunity is open to all governors to engage with the Financial Statements' Auditor directly about the audit and raise any queries about the process or the matters in their report, which opportunity might not otherwise be open to FEGP and other GB members.

22/4/3 Accounting Estimates

- 3.1 The Executive Director of Finance (EDF) presented a report on the rationale for the accounting estimates included in the accounts. The accounting estimates included that the valuation of the surplus in the college's section of the Local Government Pension Scheme (LGPS) fund had no impact on the assets available to the college to apply to its purpose and therefore was accounted for on a break even basis.
- 3.2 FEGP Committee approved the accounting estimates used in the financial statements for 2021-2022 and advised Governing Body that the accounting estimates were a sound basis for the preparation of the financial statements.

22/4/4 Final Draft Report of the Members of the Corporation and Financial Statements for the 12 month period from 1 August 2021 to 31 July 2022

- 4.1 The EDF presented a covering report on the college's financial position and commented that it had been a challenging year as income from some areas, including apprenticeships, had not recovered as anticipated. The group had ended the year with an operating deficit but had maintained a strong cash position with a net cash inflow. The significant increase in reserves was due to the LGPS pension fund valuation. The audit process had gone smoothly and most of the work was complete.
- 4.2 The Chair invited members' questions and comments on the draft and the main comments and queries were:
 - **fluctuations in the college's surplus or deficit position annually**, members asked about the swings in values between years and that this might appear to be poor stewardship of college resources. The EDF said the changing position was partly due to the way the college recognised capital grants but mainly because of fluctuations in the valuation of the LGPS pension fund. The college had met all its loan covenants and the banks were satisfied that the college could meet its financial liabilities.
 - **Environmental sustainability**, members asked if the college should be reporting against its new environmental sustainability strategy. The EDF said that the strategy was relatively new and the college was working through the detailed milestones and targets. Next year's report would include data on the college's progress on reducing carbon use.
- 4.4 FEGP Committee agreed that the Objectives and Strategy section of the draft report were an accurate statement of the current performance of the college.
- 4.5 Based on the discussion, FEGP Committee and ARAC agreed to recommend approval to Governing Body of the draft Report for adoption, subject to discussion of going concern and any post balance sheet events.
- 4.6 **Going Concern**

The committees discussed the proposition in the draft report that the college is a going concern. Members noted that the college had maintained a financial health score of "outstanding" for its 2021-22 outturn position despite the challenges post- pandemic for some income streams. The main issue discussed was the loan due for repayment at the end of 2022-23 and the impact on refinancing should the Office for National Statistics (ONS) reclassify colleges as public sector bodies. The EDF said that the bank had deferred committing to

renewing the loan pending the ONS announcement on reclassification. Irrespective of the ONS decision, the college had sufficient reserves to repay the loan should this be necessary. The EDF had modelled the impact of repaying the loan and it would have no detrimental impact on the college's financial position or as a going concern, although it would have an impact on the college's flexibility to invest in new capital developments and achieve the Estates Strategy 2022-25.

In the context of the college's strong cash balances, the financial health score for forecast outturn 2021-22 and "good" financial health score for 2022-23 financial plans, FEGP committee advised Governing Body that the college would be a going concern for the next 12 months.

4.6 **Statement of responsibilities of members of the corporation**

Based on the discussion, FEGP and ARAC agreed to recommend approval to Governing Body of the Statement of Responsibilities of Members of the Corporation.

4.7 **Financial Statements and Notes to Accounts**

The meeting considered the financial statements and notes. It was noted that there were some minor issues with page numbers and updating notes. The chair asked members to send any corrections directly to the EDF as soon as possible after the meeting.

4.8 The ONS announcement on the outcome of the review of the reclassification of colleges could require a post-balance sheet note if it moved colleges into the public sector. One of the likely impacts of a change to the classification of colleges would be to reduce the risk rating of colleges becoming insolvent.

4.9 FEGP committee agreed the Financial Statements and Notes, subject to any additional note on the reclassification of colleges as public sector, and commended them for adoption by Governing Body.

22/4/5 **Financial statements of the college's subsidiary companies**

5.1 The committees received the draft accounts for the college's three wholly owned subsidiary companies (Sparks Teaching Services Ltd, Sparks Managed Services Ltd and Sparks Solutions Ltd). The Clerk reported that the company directors were due to approve and sign the reports on 30 November. The Chair reported the discussion in FEGP about changes to the services that the Sparks Solutions Ltd would be providing to the college from February 2023 and that, in the longer term, the college might change how it used Sparks Solutions Ltd. The Financial Statements' Auditor reported that the audit of the subsidiary company accounts was nearing completion and there were no issues to report to date, other than confirming the going concern of Sparks Solutions Ltd, which needed to be determined by the directors.

5.2 Subject to the approval of company accounts by the relevant Board of Directors and resolving the query about the going concern of Sparks Solutions Ltd, FEGP agreed the financial statements for the three companies for incorporation into the College Group accounts and commended them for adoption by GB.

- 5.3 Having had due regard to Charity Commission guidance on such support, FEGP advised GB to continue to support the subsidiary companies for 2022-23 and at least until 31 December 2023.

22/4/6 **External Audit Highlights Report 2021-22**

- 6.1 The Financial Statements' Auditor presented the draft report to the committees and other GB members. The main points were:
- the audit firm is independent. The firm had completed one minor commission that was not included in the original agreement, an audit of the college's use of the Turing Scheme grant, which had no impact on its independence
 - MHA had conducted the audit according to the audit strategy agreed by ARAC and in line with the fees agreed by GB
 - In its assumptions, the corporation had made an impairment of the valuation of the LGPS pension fund from £6m surplus to £nil on the grounds that the college would not receive any refunds due to the surplus valuation. Having taken independent advice, the Financial Statements' Auditor agreed that the corporation's assumption is reasonable.
 - Based on the work to date, the Financial Statements' Auditor had found no significant issues that might result in them issuing a qualified opinion on the accounts and there were no "A" grade recommendations
 - One misstatement was identified, the over-provision for a likely reduction in AEB income. This was already known by the college and the liability had been reduced. There were some reclassifications on the balance sheet and the auditor had adjusted the previous year's figures for comparison.
- 6.2 The committees received the report and agreed that they were satisfied that the audit had been conducted properly, commented favourably on the clarity of the Financial Statements' Auditor's report to members and welcomed the assurance provided by the proposed clean audit reports on the college and its subsidiary companies.

22/4/7 **Financial Statements Regularity Self-Assessment Questionnaire 2021-2022**

- 7.1 The chair of ARAC presented the report, previously approved by ARAC on 12/10/2022, explaining that the information in the questionnaire guides completion of Statement of Regularity, Propriety and Compliance in the Annual Report that the Chair and CEP, as Accounting Officer, must sign.
- 7.2 FEGP noted the Regularity Questionnaire and both committees welcomed the assurance provided by the proposed unqualified Regularity Opinion arising from the Regularity Audit.
- 7.3 The committees advised that the completed Regularity Questionnaire was suitable for signature by the Accounting Officer and Chair of Governors, on behalf of Governing Body.

22/4/8 **Management representation letter**

- 8.1 The Chair introduced the management representation letter explaining its purpose and the representations sought by the Financial Statements' Auditor. The Financial Statements' Auditor commented that there were no additional or special representations sought from the college.

8.2 Based on the discussions, the members of ARAC and FEGP agreed to advise Governing Body that it should confirm the representations sought by the Financial Statements' Auditor including that:

- the accounts presented 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 knew of to report
- members were not aware of any frauds or allegations that had not already been disclosed to the Financial Statements' Auditor
- members were satisfied with the Statement on Regularity, Propriety and Compliance and advised GB to authorize the Chair of Governors and CEP to sign this on behalf of the Board.

22/4/9 **Concluding remarks**

9.1 The Chair asked if there were any other comments on the audit in the context that it was the first audit by a new Financial Statements' Auditor. The EDF commented that the process, management and oversight of the audit had run smoothly. The auditor's system for tracking document submissions had been transparent and easy to use, reducing the opportunity for miscommunication and delay. There had been a good dialogue between the finance team and audit team about pertinent and important issues. The audit team had provided valuable support and advice on potential improvements that the finance team would be taking forward in 2023.

9.2 The Financial Statements' Auditor said that the college had been open and honest with the audit team and had met their requests in a timely manner. The audit team's recommendations had been well-received and both teams were keen to work together on enhancing processes.

9.3 The committees recorded thanks to the EDF and the finance team for preparation of the financial statements and to external auditors on their conduct of the audit process.

9.4 The joint meeting concluded at 10.00 at which point FEGP committee members, Gwyn Arnold, Sam Giove, Phil Wymer and Paul Simpson left the meeting.

22/4/10 **Chair's comments**

10.1 Regarding the order of the remaining business, the Chair said that following review of the minutes and matters arising, the committee would continue its discussion of the External Audit Highlights report. The focus of that discussion would be to consider the findings and recommendations for developing the control environment.

22/4/11 **Minutes of the last meeting**

11.1 The committee confirmed the minutes of the meeting held on 12 October 2022 as an accurate record, subject to adding a note to clarify that Saleem Rashid had delayed joining the meeting because the committee was in confidential session and not because he was late.

- 11.2 The committee confirmed the confidential minutes of the meeting held on 12 October 2022, subject to the removal of Saleem Rashid's name from the confidential minutes.

22/4/12 Matters Arising and Action Record

- 12.1 The committee agreed that all relevant matters arising from the last meeting had been added to the Action Record and considered the matters that were not covered elsewhere on the agenda.

12.2 Confidential minute 22/3/3 refers, whistleblowing log update:

The Clerk reported that enquiries into allegations received under the whistleblowing policy had been completed. The enquiries had found no evidence of fraudulent activity and did not find any evidence to substantiate concerns raised in the complaint. As the recipient of the complaint, the Clerk would be responding to the complainant to this effect and that the investigation was closed.

- 12.3 The committee received the report and agreed that it was satisfied with the process used to investigate and respond to the concerns raised.

22/4/13 External Audit Highlights Report 2021-2022 and Fraud Risk Assessment

- 13.1 The committee continued to consider the issues arising from the audit of the financial statements. The main issues discussed were as follows.

Cash and cash equivalents, members queried the relatively long deadline proposed for completing all the agreed actions. The EDF said that improvements to the reconciliation process were being implemented immediately but the wider process improvements for different types of cash holdings would take longer. The end date of July 2023 would enable the processes for each type of cash holding to be thoroughly reviewed and made more efficient by creating a new account structure. It would also require training for people at different locations. The committee agreed that the action and deadlines proposed were reasonable.

Pension, members enquired about the likely impact of the 2022 triennial LGPS pension fund revaluation on future finances. The EDF said that the revaluation was in progress and seemed likely to result in a deficit position. Depending on the size of the deficit, the pension fund would normally offer employers options for addressing the deficit. The Financial Statements auditor said that the college's risk profile would reduce if ONS reclassified colleges as public sector which might have a positive impact on how the pension fund approached a deficit.

13.2 Auditor Independence

The committee noted that the Financial Statements' Auditor had completed an additional commission to examine the accounts for the Turing Programme Grant and agreed that it was satisfied with MHA's independence to perform the duties of External Auditor.

13.3 Audit Fees

The committee noted the assurance that the audit had been completed in line with the fees agreed in the retender exercise and approved that the EDF should review and authorise the final invoice for the fee. It was noted that for next year, the implementation of ISA315 would mean that audit firms

would be required to include testing of IT systems in their audit strategy which might add cost.

13.4 Board Risk Assessment of Fraud

The EDF presented the fraud risk assessment which gave members' assurance to the Financial Statements' auditor that the college was aware of and had controls in place to preventing material misstatement in the annual accounts due to fraud. Based on the work done over the year to strengthen the college's anti-fraud policy and fraud response planning, the committee was satisfied that the corporation had made an adequate assessment of the fraud risk and the steps being taken to eliminate or reduce the risk.

13.5 Audit recommendations from 2021-2022

The committee welcomed that two actions from 2020-2021 had been confirmed as completed and that the third and final action had been partially completed.

13.6 The committee agreed that the proposed opinions were appropriate, welcomed the assurance that there were no impropriety issues, approved the actions proposed in response to recommendations to improve controls and approved the Board Risk Assessment of Fraud, as presented. The committee commended the sector briefing provided by MHA to other members and agreed the following:

ACTIONS

- | | | |
|--|-------|----------|
| a) Add deadlines to the actions in response to the controls improvement recommendations | EDF | 22/3/22 |
| b) Include the link to the MHA Briefing in the pack for the meeting of Governing Body on 14 December 2022. | Clerk | 14/12/22 |

22/4/14 Strategic Risk Register

14.1 The committee received the update and noted the changes to the Strategic Risk Register since the last meeting. Members noted that there had been 35 changes to risk ratings and two risks had been added relating to green skills curriculum development and carbon reduction. This demonstrated that processes for regularly reviewing and updating risks were operating. The sustainability risks had also been added to the Risk Assurance Summary, as requested by the committee.

14.2 The committee approved the changes to the Strategic Risk Register and Risk Assurance Summary and agreed that no changes were needed to the assurance plans for 2022-23.

22/4/15 Internal Audit and External Audit recommendations update

15.1 The EDF presented the report on progress against the management actions previously agreed. Members welcomed that more actions were being completed by the original deadline. The EDF said that additional actions had been reported as complete since the report had been finalised. It was noted that one External Audit recommendation was still in progress related to componentisation of assets. Progress was being made and assignees had said they would complete this action before the end of term.

- 15.2 The committee received the report, agreed one extension to a deadline. Members welcomed the progress that action owners had made to completing actions since the last meeting.
- ACTION**
Ensure that the new actions agreed in the External Audit Report are added to the report. EDF 21/12/22
- 22/4/16 **Internal Audit Progress Report on 2022-2023 Plan**
- 16.1 The Internal Audit Partner presented an update on progress against the IA Plan for 2022-23. It was noted that a schedule had been agreed with the college for all the IA reviews in the plan. There were no changes proposed to 2022-23 Internal Audit Plan. Internal Audit had noted the addition of environmental risks to the college's Strategic Risk Register and consideration of these risks would be incorporated into the scope of reviews in the agreed plan, as relevant.
- The committee received the report, welcomed the progress reported and the assurance and agreed
- ACTION**
Circulate the PDF of the RSM Emerging Issues briefing to members. Clerk 7.12.22
Clerk
- 22/4/17 **Internal Audit Report: Learner Journey Internal Progression**
- 17.1 The Senior Auditor presented the IAR on internal progression processes which had resulted in an opinion of substantial assurance with two low priority recommendations. The Senior Auditor said that the review had identified many examples of good practice at the college. Sampling had confirmed that the college was implementing its processes to support student choice and where students had not progressed, it had confirmed that college staff were undertaking "right course right choice" reviews and following up students who were not responding to meeting requests.
- 17.2 The committee welcomed the report and commented that it was pleasing to see how much attention and guidance students received to ensure they were on the right course for them or to help them identify and transfer to a more suitable route that would meet their needs. It was also noted that RSM had completed the review at the start of the year so that improvement recommendations could be adopted as quickly as possible and have a positive impact in the current academic year.
- The committee received the substantial assurance for report to Governing Body.
- 22/4/18 **Audit Committee Annual Report 2021-2022 (Final)**
- 18.1 The Clerk presented the updated Annual Report, with the changes approved at the October meeting and a rationalised list of appendices attached.
- 18.2 The committee considered the updates to the report and agreed that the report was accurate and provided good evidence to underpin the opinions in the Statement of Corporate Governance and Internal Control.
- 18.3 The committee agreed the opinions in the report and asked the Clerk to update the content to reflect the External Auditor's report to the meeting.

Subject to these changes, the committee approved the report and commended it to the GB.

ACTION

Audit Committee Annual Report 2021-2022: update the report with the External Audit draft opinions.

Clerk 14/12/22

22/4/19 **Statement of Corporate Governance and Internal Control**

Based on the findings of ARAC Annual Report 2021-2022, confirmed by the Internal Audit Annual Report, the committee agreed to recommend to Governing Body adoption of the Statement of Corporate Governance and Internal Control.

22/4/20 **Review of meeting and closing remarks**

20.1 Members commented that the overlapping meeting with FEGP Committee continued to be effective and commented that

- It was pleasing to see the college benefitting from engagement with the newly appointed External Auditor. The committee had wanted to see the External Auditor adding value by bringing advice and their expertise and this had been included in the retender specification. In 2023, the committee would be continuing to pursue improvements to the controls environment and it was hoped that the External Auditor would be able to input to benchmarking good practice.
- The Learner Journey Internal Audit Review demonstrated how audit committees could have positive impact on student experience. It was an area that Internal Auditors reviewed in other colleges and they were able to bring that experience and benchmarking to the college. The report had also given governors a detailed insight into an aspect of student life that they otherwise might only see at headline level.

20.2 Members thanked the Clerk, EDF, Finance Team and the EDSSI for their work producing thorough and high quality annual reports, financial statements and continuously improving and embedding the college's approach to risk management.

22/4/21 **Date and time of next meetings**

23 March 2023, 08.30 – 10.30 in the New Boardroom, City Campus

5 July 2023, 08.30 – 10.30 in the New Boardroom, City Campus.