Minutes of the Audit Committee
Meeting
Held On Wednesday 26 November 2014, 18.00 Hours
Board Room
Digbeth Centre
High Street, Deritend, Digbeth

Start Time: 18.05 Hours

Present: Clive Henderson (Chair), Paul Johal, Heather Jones, Pat O’Neill, Richard Weber, Alex Stephenson, Zahoor Mann, Colin Manns, Parveen Ghulam (Clerk)

In Attendance: Mike Hopkins, Sardul Dhesi, Alan Howey, Dawn Ward, Angela Pocock, Shireen Avari, Julie Groom, Louise Tweedie, (Internal Auditor), Natalie Ingles, Richard Bacon and Matthew Patterson (External Auditors)

1. Apologies

Apologies were received from Patrick Green.

2. Declarations of Interest relevant to the Agenda

There were no interests declared.

The Chair welcomed Richard Bacon and Matt Patterson to the meeting.

3. Minutes of the Meeting held on 2 July 2014.

i. Accuracy

ii.

The Chair raised his concerns regarding the marketing audit on page 3 of the papers and expressed that he had spoken to a few governors who were not comfortable with this. It was agreed with Dawn Ward that a presentation would be made regarding this at a future meeting.

There were a few minor amendments to the minutes which the Clerk noted. These amendments would be made and the amended version of the minutes would be made available on the College website and it was:

A47/14

Resolved: That subject to the minor amendments the minutes of the meeting held on 2 July 2014 be signed as an accurate record and that a presentation for marketing be made at a future meeting.
4. Matters arising not covered on the agenda

There were no matters arising.

5. Appointment of Chair

Parveen Ghulam informed governors that as per the Audit Committee terms of reference it was agreed that at the first meeting of the academic year the Chair would be nominated and elected. Committee members were asked for nominations, Clive Henderson was the only nomination. Clive was happy to continue as Chair. The Committee unanimously agreed Clive Henderson as Chair of the Audit Committee and it was:

A48/14
Resolved: That approval be given to the appointment of Clive Henderson, as Chair of the Audit Committee.

6. Committee Terms of Reference

Parveen Ghulam informed the Committee that there was a requirement to review the Terms of Reference annually. She advised that there were no changes that were recommended but asked the Committee for their comments. The Chair suggested some minor amendments, which the Clerk made note of, it was:

A49/14
Resolved: That the amended Audit Terms of Reference be recommended to the Corporation for approval.


The Chair questioned whether the word “and” should be used or the ampersand “&” in South and City College Birmingham could both be used. Mike Hopkins confirmed that they could both be used.

Louise Tweedie informed the Committee that the overall opinion was that the College had “adequate and effective processes”. This terminology was standard across audit. However, in order to demonstrate how well the College was doing, the auditors introduced a traffic light system. All areas were of a green opinion, maintaining a strong outcome and good direction of travel.

The Chair asked why the bar charts on page 15 were coloured blue, yet the key chart was addressing them in red, amber green. Louise apologised and said in future they would be in the correct colour. Overall the bar charts showed predominantly percentages of green opinion with little amber/green and no red opinions. The overall opinion was green. In the future a benchmarking report comparison across the FE sector would be provided.

The Chair was pleased with the green opinions and thanked Louise for her teams work and it was:

A50/14
Resolved: That the Annual report of the Internal Auditors for the Year Ended 31 July 2014 be recommended to the Corporation for approval.

8. South & City College Birmingham Financial out-turn for year ended 31 July 2014

Alan Howey informed governors that this report was subject to external audit and
confirmation of SFA income. He addressed the key points of the report.

The College had an operational surplus of £334,000, with a cash balance of over £8.7 million and a liquidity ratio of 1.3, which put the College in a strong position. The College had reduced its debts by £1.5 million. Alan requested that the Committee recommend the draft accounts to the Corporation for approval.

Mike Hopkins pointed out that on page 31 of the papers his name should appear as a member of the Corporation and that details for some of the Governors were incorrect. The Clerk would provide these details to Alan to amend his report.

Alan informed the Committee that the Birmingham City Council pension scheme was in deficit. Over the last 3-4 years Birmingham City Council (BCC) had shed many staff and this had the effect of less staff paying into the pension resulting in less money being paid out on pensions.

Angela Pocock added that auto enrolment may have had an impact.

Alan explained that more people needed to contribute to the pension. Some staff took early retirement which had an impact on final salary schemes.

The Chair asked whether the allocation of pension liability from BCC could be checked. Richard Bacon informed the Committee that actuaries estimated liability on hard data, age and retirement age. Mike added that the College could not verify what liability was held against the College as it was BCC who were in control of the pension and not the College.

Alan informed the Committee that following incorporation in 1992 Birmingham City Council allocated staff from the pension to the College. However, they were unable to provide the information regarding who the staff were. As City College was a similar size to South Birmingham College ten years ago, this compounded the issue of pensions.

Alan explained that it was difficult to verify staff prior to 1992, for instance if a member of staff retired in 1990 who should be responsible for this liability.

The Chair asked the impact of a salary increase on the pension for example, the College give only 1% increase in salary over 10 years and BCC gives more. Richard said that there would be a lower increase and if it continued the actuary would overestimate it and this would come back through the salary.

The Chair expressed that as there are so many swings this would be a going concern and this could affect the bank covenants.

Colin Manns asked what losses the College were forecasting for this year. Alan informed the Committee that this would be £1.8 million for this year and £640,000 next year. Mike added that this was a worst case scenario.
The Chair pointed out that page 69 should be reworded to read as past tense and Richard agreed.

The Chair asked whether there were grounds for a fair value adjustment for the Tyseley Campus. Alan explained that the valuations were a worst case scenario and it was difficult to judge the current market value. The College were hopeful that this would generate a lot more.

Mike informed the Committee that he had spoken to valuers, who were not clear on what the value may be as it was a unique asset and may generate a premium. Additionally, it might be difficult to sell in terms of timescales. The Chair suggested that this should be kept under review.

The Chair asked what the relationship was between Ahasan Ul-Haq a staff governor and Golden Hillock campus. Mike informed the Committee that Ahsan was a trustee of the Golden Hillock mosque. The mosque is the landlord of the Golden Hillock campus. The Chair suggested that this relationship should be made clearer in the report.

The Chair also said that on page 23 of the papers the word “not” should be removed from the second bullet point, it was:

A50/14
Resolved: That the South & City College Birmingham Financial out-turn for year ended 31 July 2014 be recommended to the Corporation for approval, subject to the amendments.


Richard Bacon informed the Corporation that this report was set out on from page 72 on the papers. He highlighted that the bullet points on page 74 of the papers could not be completed until the accounts had been approved by the Corporation and the auditors were still awaiting final comments from the SFA.

The bank covenants with Lloyds and Barclays did not pose a problem for the coming 12 months. However, it was recommended that these be reviewed and negotiations with the bank to begin. Having said this Richard felt that the forecast were prudent in the context.

In terms of the audit that was carried out, the auditors found no serious issues. They had identified a small number of cut off errors, of which £56,000 was one of them. Management had not adjusted for these errors, but the auditors felt that this was not material.

The auditors recommended that the College monitors its disposal assets which was agreed by management.

The Audit approach from pages 76 onwards, confirmed that the auditors had carried out the work and that no issues had arisen and the College was in a good prudent position.

Richard drew the Committees attention to the pensions section of the report on page 80 which
had already been discussed at the meeting. It was noted that the College would continue to offer a letter of support for the subsidiary FESSA Limited.

The internal controls recommendation, was that the College should perform a detailed review of the assets, which would be included in the fixed asset register and to keep this updated.

The Chair asked what value an asset should be before it was capitalised. Alan informed the Committee that the minimum amount was £500. Colin asked if the College physically verified the assets. Alan explained that all IT equipment was bar coded and checked once a year and estates would carry out a non IT check.

Richard drew the committee's attention to the Appendix 1, which was the letter of representation and asked the Committee if they were happy with this. The Committee agreed.

Appendix 2 detailed sector developments and about provided information the new SORP. The SORP is the new UK accounting standard.

The Committee were informed that the fees for the external audit were set out on pg. 100 of the papers. The Chair questioned a point on the fees being, which related to the Certification of the City College Birmingham Teachers’ Pensions End of Year Certificate for the period 1 April 2012 to 31 July 2012 as £916. He asked whether this was an error in reporting. Natalie Ingles explained that this related to the former City College return and this needed to be returned this year.

The Chair pointed out that on page 77 of the papers the overall materiality had been set at 25. Richard said that this should have read 2%.

Mike asked why fraud in revenue recognition was a high risk. Richard explained that the auditors did not have a choice as management could override the control and could misstate the revenue. This was an internal audit standard for all organisations and had to be included.

The Chair asked when the accounts would be signed off, as the funding had not been finalised. Dawn Ward informed the Committee that the College was awaiting the confirmation of the ESOL funding.

The Chair asked what the main changes were to the new HE/FE SORP. Richard said this was a range of things and included a requirement to know the status of leases any grants, holiday pay accrual and changes to pension schemes.

Colin questioned whether the numbers in the comparatives would have to be restated this year. Richard informed the committee that for this year they would not have to be but for next year they would.

Zahoor asked when the last time the fixed asset evaluation had been carried out. Alan informed the Committee that the assets for City College were revalued in 2013, the assets for South Birmingham College had not been valued and this would be carried out when the new SORP came into effect.

Zahoor further questioned the value of the College assets. Mike explained that as five ex City sites were being disposed of the College could not confirm the value of the assets until the market had
been tested. The current statement of value remained the same, it was:

A50/14

10. Annual Report of the Audit Committee to the Corporation and Principal for the year ended 31 July 2014

The Chair informed the Committee that he was happy with the report and highlighted that the Committee had only met twice in the year due to the timing of the audits. The Committee agreed with the report. It was pointed out that Colin Manns name should appear as a member of the Audit Committee and subject to this, it was:

A50/14
Resolved: That the Annual Report of Audit Committee to the Corporation and Principal for Year Ended 31 July 2014 be recommended to the Corporation for approval.

11 Internal Audit Management Follow Up

Sardul Dhesi explained the purpose of the report to the Committee was to show the status of audit recommendations. The first appendix detailed follow up recommendations. 24 recommendations had been completed and one was outstanding. The second appendix showed the recommendations from the audits carried out in 2013. 22 recommendations were completed and 7 were outstanding. The report detailed the recommendations along with the managers response and the status of the recommendation. At the last meeting, management were requested to highlight the report using a traffic light system. The report was now colour coded.

Colin commented that it was a useful report and was clear on what recommendations had been completed. Sardul explained that the recommendations were reviewed at management meetings and would form part of the managers performance review. The Chair also expressed that the report was easy to monitor and evidence of the recommendation was provided, it was:

A50/14
Resolved: That Internal Audit Management Follow Up be received and noted.

12. Internal Audit Progress Report

Louise informed the Committee that this report was a reminder of the audits that had been planned for the forthcoming year. The first audit would be carried out in December and the audits would be reported in March 2015, it was:

A42/14
Resolved: That the Internal Audit Progress Report be received and noted.
13. Update on Risk Management

Alan Howey informed the Committee that at the Corporation meeting in November, he had reported on 9 significant risks facing the College. The report showed the overall controls of these risks. SMT received regular updates on funding targets and the controls were working in practice. For some of the risks it would not be known if the College had addressed these risk until the outcome of the Ofsted inspection was known. Mike added that this was a summary of live controls.

With regard to risk 5 ‘the College fails to engage with employees and LEP’s’. Mike Hopkins is on the LEP employment board. Sardul explained that risk 6 ‘the curriculum fails to meet student aspirations’. The college had carried out a process with directors which required them to demonstrate how they had met this target. Zahoor Mann and Paul Johal and Pat O’Neill had contributed to these meetings and allowed governors to have an insight on the planning process and the level of scrutiny the College undertook.

Alex commented that the College had inherited a number of staff from City College and asked whether management were happy with these as the college were losing students. Sardul informed the Committee that immediately following the merger in September 2012 there were some issues. However, there is no longer a City team or a South team it was now only South & City College Birmingham. A process review of admission and enrolment had been undertaken to bring about a consistent approach.

Risks 8 & 9 related to the inability to increase non funded income and the inability to make savings in estate costs. Clive commented that he was happy that the College was in a fortunate position that they had a good reserve. Mike added that he had always kept governors informed of the position and would let them know the worst case scenario, so that there would be no surprises, it was:

A43/14
Resolved: That the update on the Risk Management plan be received and noted.

14. Public Interest Disclosure (Whistleblowing)

Parveen Ghulam informed the Committee that this was the first time that the policy had been brought to the Committee, previously it had been reported to the Corporation. Following changes to the Committees terms of reference. Whistleblowing was a responsibility of the Committee to look at. Parveen explained that it was a legal requirement to have a policy in place. The revised policy was updated to reflect recent legislative changes. There was a removal of the requirement of “good faith” and a new requirement that a disclosure was “in the public interest”. Parveen also confirmed that no whistleblowing had occurred to date, it was:

A44/14
Resolved: That the Public Interest Disclosure policy and procedure be recommended to the Corporation for approval.

15. Any other Business

The Chair had asked all senior managers to leave the room and only governors, auditors, the Clerk and Mike Hopkins to remain. Clive wished to meet in private to allow any governor to raise any
concerns they might have which they felt they could not raise whilst managers were present. Mike expressed that although he was a governor, he was happy to leave the room to allow for an open discussion.

The Chair expressed he had no concerns himself to raise but wanted to allow governors to raise any matters they wished to and also informed the Governors that if they wished to put anything on the audit agenda or any other agenda then they should either contact the Clerk or the relevant chair.

Alex Stephenson asked whether it was the Audit Committee which looked at the performance of governors or whether this was the Search & Governance Committee. He also asked whether there was a standard format for self-assessment of governors and how the Governors should hold the Executive to account. It was confirmed that this would be through the Search & Governance Committee or Corporation. Louise Tweedie informed the Governors that there was guidance available on self assessment and board assurance and this had been forwarded to the Clerk. Mike Hopkins added that the forthcoming training on 4 December would address the issue of how to challenge the Executive.

The Chair explained that he had read a number of reports for Colleges who had been visited by the FE Commissioner and had read that some boards had dominant or weak governors. He felt that South & City College had a well-rounded mix of skilled governors. Mike commented that he was aware that other governing bodies consisted of members who were well acquainted with each other and good friends and the Executive was never challenged. Here the Governing body did challenge the Executive.

Richard Bacon informed the Committee that he did not have any concerns and had spoken openly at the meeting.

16. Date and Time of Next Meeting

This would be as per the calendar on 11 March 2015.

Meeting Closed: 19:15