



**FINANCE, EMPLOYMENT & GENERAL PURPOSES COMMITTEE AND
AUDIT & RISK ASSURANCE COMMITTEE
UNCONFIRMED MINUTES OF THE JOINT MEETING**

Date: 3 December 2018
Venue: The Boardroom, City Campus, the Sheffield College
Clerk to the Corporation
Granville Road
Sheffield, S2 2RL
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Present: AUDIT AND RISK ASSURANCE COMMITTEE
Ian Falconer, Chair
Gwyn Arnold
Richard Calvert
Jane Jones
Chris Linacre
Michelle MacDonald Staff Governor

FINANCE, EMPLOYMENT AND GENERAL PURPOSES COMMITTEE
Kim Streets, Chair
Beri Hare
Saleem Rashid
Angela Foulkes

In attendance Rob Barnett, Head of Internal Audit, RSM
Lisa Smith, Internal Audit Senior Manager, RSM
Clare Partridge, Financial Statements' Auditor, KPMG
Richard Lee, Financial Statements' Auditor KPMG
Kate Platts, Executive Director of Finance and Resources (EDF&R),
Alison Shillito, Clerk to the Corporation

**Action
by
whom** **by
when**

1. Welcomes and apologies for absence

The Chair of Audit and Risk Assurance Committee agreed to chair the joint meeting.

The Chair welcomed Rob Barnett, the new Head of Internal Audit of RSM, to his first meeting of the Audit and Risk Assurance Committee.

No apologies were received from members of Audit and Risk Assurance Committee, the Committee was quorate.

Apologies were received from the following members of Finance, Employment and General Purposes Committee: Jay Bhayani, Stephan Hollingshead and Seb Schmoller.

The meeting was quorate. For any decisions requiring FEGP Committee approval, the Committee was quorate unless declarations of interest excluded members from the quorum.

2. Declarations of Interest

The Committee noted Michelle MacDonald's standing declaration as a member of staff. In line with the Post-16 Audit Code of Practice it was

acknowledged that the staff governor would not be counted for quorum or voting purposes but would contribute to the discussion and achieving a consensus. The meeting agreed no further action was required on this declaration.

The Committees noted Angela Foulkes' declaration of a standing interest as Chief Executive and Principal of College. Angela also declared a standing interest as a Director of the College's wholly owned subsidiary companies, which was relevant to agenda item 4(v). As a Director, the meeting agreed that Angela would not be counted for quorum or voting purposes for item 4(v) – Letters of Support.

It was noted that Kate Platts also had a standing interest as a Director of the College's wholly owned subsidiary companies. As an officer of the Committee, Kate was not counted in the quorum or eligible to vote.

The Committees noted Saleem Rashid's standing interest as a member of staff of the College and a trade union representative. The Committee agreed that Saleem would not be part of the quorum or eligible to vote on item 4(v).

Other standing declarations were noted but were not deemed to have any bearing on the agenda for the meeting.

3. Introduction

3.1 The Chair reminded everyone present of the split of responsibilities between the A&RA and FE&GP Committees. It was the role of both to advise the Governing Body on a number of key documents, which was why the groups had convened together to consider:

- a) The draft Members' Report and Financial Statements for the year ended 31 July 2018
- b) The Financial Statements' Auditors reports on the audits and Management Letter and
- c) The Regularity Audit Questionnaire

He confirmed that it is the Governing Body's responsibility to adopt accounts and determine whether or not the College remains a going concern but that its conclusion will be based upon the advice of both Committees.

3.2 Before considering the documents circulated the Chair asked whether Governors or auditors would like the opportunity to meet without management present. It was agreed that this was not required. It was noted that the Chair of Audit and Risk Assurance Committee and the Clerk to the Corporation had a telephone conversation with Clare Partridge of KPMG on 26 November. This had been an opportunity for open dialogue to discuss any matters arising in the conduct of the audit; the preparations made by the College Finance Team; progress on finalising revised loan covenants and the College's medium term financial strategy.

3.3 Clare said that in that discussion and to the meeting she was able to give a positive view of the conduct of the audit, it had gone more smoothly than in 2016/17. The new members of the team were working well to embed good forecasting and auditors were comfortable with the progress the College had made with its lenders. In terms of medium term financial strategy, finances across FE remained challenging. The Transaction Unit, which was due to close in March 2019, was reportedly

over-subscribed by colleges seeking financial assistance. It had also been reported that a bank had been asked to write-off college debts. In this climate, all colleges needed to manage cash carefully and could not rely on exceptional financial support or other public funding, as a lender of last resort.

- 3.4 All present acknowledged that they understood the nature of the private meeting discussions.

4. Financial Audits

4.1 Final Draft Report of the Members of the Corporation and Financial Statements for the 12 month period from 1 August 2017 to 31 July 2018

- 4.2 It was noted that it was principally for FE&GP Committee to comment on the financial position represented in the accounts. The Executive Director Finance and Resources (EDFR) said that, as previously reported to FEGP Committee, the figures were better than that anticipated at Period 12 and better than budget. The Financial Statements also reflected some benefit from the LGPS pension valuation.
- 4.3 Members noted that provision for Lennartz scheme payments were shown in cash and creditors and asked about for an update on progress. The EDFR said that since the last meeting of FEGP Committee she had commissioned Deloitte to give a second opinion on the College's strategy for settling its dispute with HMRC about repaying the VAT payments deferred under the Lennartz scheme.
- 4.4 The Chair queried if, for transparency the report should include the Chief Executive and Principal's salary rather than the payments made to the CE&P in 2017/18 in salary bands – the two figures were different because of the change in roles during 2017/18. The FS Auditor commented that the methodology used in the report was compliant with FE sector requirements although universities and academies were required to publish the CEO's salary including any benefits in kind etc. The Clerk commented that the CEO's salary had previously been disclosed in response to freedom of information requests in line with ICO guidance on public interest. It was agreed that the EDFR should review the position in the light of the Committees' opinion that disclosure of the Chief Executive's remuneration should be specific, for reasons of transparency and in the public interest.
- 4.5 On the basis of the discussions, the joint Committees agreed to recommend to Governing Body adoption of the Report of the Members of the Corporation and Financial Statements for the 12 month period from 1 August 2017 to 31 July 2018, subject to some minor corrections identified by the members and assurance received later in the meeting on going concern and the auditors' reports.

5. Financial Statements' Auditor's Audit Highlights Memorandum and Management Letter

- 5.1 KPMG introduced its draft report, confirming that the core audit process had gone smoothly with a few control issues (see action below). The Committees were reminded that in July 2018, the KPMG audit plan for the year had been approved by the A&RA Committee and this report was the outcome of the expected work. KPMG confirmed that the risks

in the Memorandum were entirely consistent with those identified in the audit plan. The Committees considered the risks and findings as follows.

- 5.2 **Pension (LGPS) valuation** – KPMG had reviewed the valuation by the scheme actuaries and the assumptions used for assessing the value of the plan assets. It was noted that the discount rate assumed by the College was outside KPMG's benchmark range but the overall assessment of assumptions for FRS 102 purposes was balanced and within KPMG's normally acceptable benchmark range. KPMG could provide further advice on future valuations if required. It was also noted that consultation was in progress on changes to LGPS benefits following a successful legal challenge about the differences in pension accrual between men and women. Depending on the outcome, changes to the scheme rules could result in a liability for employers.
- 5.3 **Going concern** – it was noted that auditors expected to issue an unmodified Auditor's Report. The auditor commented that following the material uncertainty in last year's audit report there had been work with the College's banks throughout the year to manage the risk of covenant breach. Auditors were satisfied with the evidence that the College's lenders had provided to confirm no breach, as at 31/7/2018. Discussions had also resulted in new covenants being agreed in line with the College's current three year plan. The EDFR had prepared detailed cash flow forecasts for the next two years to support managing the new requirements and sector-wide financial challenges.
- 5.3 **Internal controls** – the Memorandum identified four control issues for management action (two medium risk and two low risk) and one action identified as outstanding from 2016/17. The EDFR said that she would prepare and add the management responses to the report recommendations prior to its submission to Governing Body. Completion of the actions would be reported to Audit & Risk Assurance Committee, via the audit recommendations tracker.
- 5.4 **Audit fees** – the Committees noted that the final fixed fee for the audit was as approved by the Audit and Risk Assurance Committee at its meeting in June 2018 with no additional payments to auditors.
- 5.5 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.
- 5.5 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.

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6. **Regularity Audit Self-Assessment Questionnaire**

- 6.1 The EDFR presented the report, explaining that the completed questionnaire formed part of the assurance processes that the College provided to external auditors. The content of the questionnaire are tested in the audit and support the representations that the College would make.
- 6.2 The Committees considered the document and members of Audit and Risk Assurance Committee welcomed that queries raised on the first draft had been addressed. It was confirmed that the document was a

confidential communication to the College's auditors and therefore the document contained confidential and sensitive information that was not for wider dissemination.

6.3 A query was raised about corporate oversight of expenditure on overseas travel. The questionnaire stated that there had been little business travel overseas and there had been no requirement to report to Governing Body. It was noted the Chair of Governing Body exercised oversight of travel expenses, including overseas visits for the Chief Executive and Principal and queried whether oversight of overseas travel should be extended. The EDFR said that the travel and expenses policy was due for review and the limits of authority would be reviewed and presented to the FE&GP Committee as part of the ongoing policy review.

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6.4 the Committees approved the Regularity Audit Self-Assessment Questionnaire as presented, as suitable for signature by the Accounting Officer and Chair of Governors on behalf of the Corporation.

7. Reporting Accountant's Report on Regularity

7.1 The Committees received the report, noting there were no issues arising and welcomed the assurance provided by the proposed regularity opinion.

8. Letters of Support

8.1 Angela Foulkes, Saleem Rashid (and Kate Platts) were deemed conflicted and therefore not included in the FE&GP Committee quorum for this item.

The Committees received the proposed letters of support for the College's wholly owned three subsidiary companies. 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 the companies were subject to an internal review, which would include the financial viability and efficiency of delivering the services via subsidiary companies
- the current business plans for the companies indicated that they were viable for the next 12 months within the College's overall budget.
- the provision of the letters was not a matter requiring external professional advice.

8.2 Having had due regard to the Charity Commission guidance on such support, the Committees advised Governing Body to continue to support of the subsidiary companies for 2018/19 and recommended that the board authorise the Chair of Governors to sign the letters on behalf of the Corporation.

9. Financial Statements concluding remarks and approvals

On the basis of the Committees' consideration of all the reports and the auditors' opinions the Committees agreed the following.

9.1 Statement of Responsibilities of Members of the Corporation (*agenda item 4ii, appendix 2*)

The Committees agreed that this was an accurate statement of members' responsibilities and advised Governing Body to approve the

statement and authorise the Chair of Governors to sign the statement on behalf of the Corporation for inclusion in the Financial Statements.

9.2 Going Concern

Having considered the statements at pages 7 and 20 of the Draft Members' Report, and auditor's comments at page 8 of its Memorandum, the Committees agreed that they were content to advise Governing Body that the College remains a going concern.

9.3 Letters of Representation (*agenda item 4ii, appendix 3*)

Having agreed that:

- the accounts give a true and fair view and have been prepared on a going concern basis
- There are no significant Post Balance Sheet events members are aware of to report
- Members are not aware of any fraud or allegations that have not been disclosed.

The Committees agreed to advise Governing Body to adopt the accounts and authorise signing of the Statement of Corporate Governance and Internal Control; Statement of Regularity, Propriety and Compliance; and Letters of Representation by the Chair of Governors and, where appropriate, the Accounting Officer, on behalf of the Corporation.

9.4 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 9.10 am at which point Finance, Employment & General Purposes Committee members left the meeting.