



# MEETING MINUTES

**MEETING**

**Audit Committee**

DATE: Friday 24 March 2017      TIME: 11.30 – 13.20  
VENUE: NCHSR, Faraday Wharf      CHAIRED BY: Naomi Connell  
(Meeting Room 1)      MINUTE/ACTION  
TAKER: Martin McNeill

**ATTENDEES**

1. Naomi Connell (NC) – dialled in	2. Andrew Cleaves (AC)	3. Alex Stevenson (AS)
4. Beth West (BW) – dialled in		

APOLOGIES: None

IN ATTENDANCE: Miranda Coles (MC), Jackie Grubb (JG), Clair Mowbray (CM)

TOPIC	WHO	WHEN
<p><b>1. Minutes of the last meeting and matters arising</b></p> <p>The minutes of the meeting held on 30 November 2016 were confirmed as a true record.</p> <p>The Committee was pleased to note that all outstanding actions had either been completed or closed, except as follows:</p> <p><u>Action 53: Committee to consider reports and questionnaires required and the associated processes and procedures that are to be introduced prior to the signing of the 2016/17 financial statements. All relevant documents to be brought to the next audit committee</u></p>		



<p>The relevant documents had been circulated and would be considered under Item 7.</p> <p><u>Action 54: PwC professional advice on accounting treatment of land and buildings to be brought to the next audit committee</u> MC told the Committee that this was not yet available, and would need to be considered at a future meeting.</p> <p><u>Action 58: further consideration and clarification of the paper on the potential setting up of a subsidiary to be undertaken by the senior team. Discussions to continue at Board</u> This was due to be considered under Item 4.</p> <p>In relation to Action 57 (Outsourcing), AC confirmed that he was happy with the approach that the College was taking. In relation to Action 59 (Budget), MC confirmed that this had now been approved by the Board.</p>		
<p><b>2. Terms of reference</b></p> <p>AS told the meeting that, as Chair of the Search and Governance Committee, he had been asked by that Committee to attend the forthcoming meetings of the Audit, Finance and Resources, and Quality and Standards Committees to facilitate their consideration of their proposed terms of reference and membership. The Search and Governance Committee had made a number of recommendations to the Board: one of these was that, during the current, formative phase of the Corporation's life, committees should be used for governor training as well as for scrutiny of College performance, plans and policies. He acknowledged that the Audit Committee, unlike the other two committees, was already well established and functioning effectively.</p> <p>The Committee agreed that a membership of up to five governors was appropriate. It was important to recognise that the CEO, although she might be requested to attend Audit Committee meetings, was not a member of the Committee and that should be made clear on agendas. Following discussion, it was agreed that the Committee should have the power to adopt an additional member, but that there was no reason to do so at present.</p> <p>The Committee agreed to recommend the proposed terms of reference to the Board for approval, with the following amendments:</p>		



<ul style="list-style-type: none"> <li>Section 2 should provide for committee members to be appointed by the Corporation for a two-year term and to serve for a maximum of two such terms; and for the Committee Chair to be appointed annually by the Board, on receipt of a recommendation from the Committee. [Note: the Search and Governance Committee has recommended that each committee chair should be appointed for a two-year term and to serve for a maximum of two such terms.]</li> <li>A new Clause 3.3 should be added, providing for the Committee to meet without members of the College executive being present, but either with or without representatives of the external or internal auditors, at the end of every meeting.</li> </ul> <p><b>Action: Draft amendments to sections 2 and 3 for consideration by the Board (ACT 60)</b></p>	<p>JMs</p>	<p>31/03/2017</p>
<p><b>3. Schedule of activity</b></p> <p>Introducing the revised schedule of activity, MC explained that, during the start-up phase, the Audit Committee had discharged a number of duties on behalf of the Board that were more appropriately delegated to other committees. Now that a full committee structure was being put in place, the Audit Committee was able to focus on its core functions.</p> <p>The Committee agreed to approve the proposed schedule of activity, which it would review annually (in September) and as the need arose.</p>		
<p><b>4. Update on the setting up of a subsidiary company</b></p> <p>MC reminded the Committee that the Corporation had asked the Executive to investigate the establishment of a subsidiary company, which would provide corporate services to the College, undertake some trading activities and employ both support staff who were not part of the core team and some teachers and trainers (including short-term secondees from industry) who were not enrolled in the Teachers' Pension Scheme.</p> <p>Advice had now been obtained from Eversheds and, while some issues, such as the exemption of the subsidiary from public contracts regulations, had still to be clarified, the shape of a possible structure had emerged.</p>		



<p>Governors agreed that, if such an arrangement were to be put in place, it was better that it were done as early as possible, before large numbers of staff were employed. While there were clear advantages, the more complex structure inevitably involved some risks. Following discussion, the Committee agreed to recommend to the Board that work continue to set up a subsidiary company on the following basis:</p> <ul style="list-style-type: none"> <li>• The subsidiary would be non-charitable, but would pay dividends to the Corporation as its parent.</li> <li>• Sponsorship would continue to be directed through the College, as the charitable entity within the group.</li> <li>• The board of the subsidiary should include a member of College staff, probably one of the Finance team.</li> <li>• Articles of association would be drawn up to govern the activities of the subsidiary.</li> <li>• The relationship between the College and the subsidiary should be set out in a management agreement, which should explain clearly how the College would exercise control over the subsidiary and make provision for unexpected developments.</li> <li>• Professional advice should be taken throughout, particularly in relation to VAT.</li> <li>• A draft management agreement should be presented to the next meeting of the Committee, with a clear statement of the principles on which it was based.</li> </ul> <p><b>Action: Recommend Board to approve continued work on the establishment of a subsidiary company on the basis set out (ACT 61)</b></p> <p><b>Action: Develop proposals for subsidiary company and present draft articles of association and management agreement to next meeting of Audit Committee (ACT 62)</b></p>	<p>NC</p> <p>MC/ CM</p>	<p>12/04/2017</p> <p>23/06/2017</p>
<p><b>5. Pension arrangements</b></p> <p>MC updated the Committee on her recent discussions with pension providers about a defined contribution scheme for those staff (estimated to number between 30 and 40) who would be employed by the proposed subsidiary. Of the three firms shortlisted, one (Aegon) had declined to quote as the proposed employee base was seen as too small. The other two had presented attractive proposals, including management charges of 0.31 per cent (Scottish Widows) and 0.7 per cent reducing to 0.5 per cent</p>		



<p>(Mercer). These were both below the maximum permitted rate of 0.75 per cent. Both schemes provided members with choices about how their funds should be invested and how they wished to take their benefits. In either case, the College would incur set-up costs of up to £5k.</p> <p>CM outlined some principles that, in her view, should guide the College in developing a pension scheme for the subsidiary company. It was important to provide flexibility to enable staff to contribute at different levels to suit their individual needs, which might change over time. At the same time, the College contribution should be set at a level that ensured that staff of the subsidiary were not perceived to be ‘second-class citizens’, receiving pension benefits markedly inferior to those offered to directly-employed College staff.</p> <p>The Committee accepted these principles and asked CM and MC to develop a proposal that took account of the following considerations:</p> <ul style="list-style-type: none"><li>• By law, staff paid above a minimum level would need to be ‘auto-enrolled’ in a pension scheme with fixed minimum contribution rates both for employees and for employers.</li><li>• The scheme should provide for the employer to increase its contributions where the employee was doing so (but within limits, and not necessarily <i>pari passu</i>).</li><li>• More information was needed on industry practice. The minimum total contribution payable from April 2019 would be eight per cent, of which at least three per cent had to be contributed by the employer; anecdotal evidence suggested that good employers in the engineering and construction sectors were already exceeding that minimum level, with many employers matching employee contributions in a ratio of 2:1.</li><li>• Salary sacrifice options, whereby individuals accepted reduced salaries in return for higher pension contributions (which were not subject to national insurance deductions), should be considered.</li><li>• The long-term cashflow implications of any scheme needed to be modelled.</li></ul> <p>The proposal should be circulated to Committee members and their comments obtained before formal approval was sought.</p> <p><b>Action: Circulate detailed proposal to Committee members for comment (ACT 63)</b></p>	<p>MC</p>	<p>31/05/2017</p>
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<p>MC also provided further information about the enrolment of non-teaching staff employed by the College (rather than the subsidiary company) in the Local Government Pension Scheme (LGPS). She had concerns that joining the West Midlands fund within the LGPS would be disadvantageous both to the College and to the staff concerned, and had made a case for the College to be accepted as a member of the South Yorkshire fund. It was agreed that Jo Miller should be asked to support the College's application. A full report should then be made to the Committee.</p> <p><b>Action: Request Jo Miller's support for application to South Yorkshire fund of LGPS (ACT 64)</b></p> <p><b>Action: Prepare full report on pension arrangements for next meeting of Committee (ACT 65)</b></p> <p>The Committee agreed that in the longer term these issues should fall within the remit of the Finance and Resources Committee.</p>	<p>CM</p> <p>MC</p>	<p>12/04/2017</p> <p>23/06/2017</p>
<p><b>6. Internal audit</b></p> <p>The Committee agreed that there was a need to develop a comprehensive board assurance programme, covering financial and non-financial systems and processes.</p> <p>On the financial side, it would always be necessary for the Corporation to obtain an external view on the effectiveness of financial control systems, particularly from 2018 on when these came in-house. In 2017-18, however, internal audit effort might be better focused on the arrangements in place between the College and its financial services provider. At the same time, it would be important to obtain independent assurance on data quality and the College's approach to risk management.</p> <p>Above and beyond these traditional internal audit activities, governors considered that there was also a need for external review of the ways in which key functions such as student and staff recruitment, safeguarding, curriculum design and IT were managed. The Corporation would also wish to be assured that it was in a position to meet the expectations of its external stakeholders, particularly the Skills Funding Agency. In this context, governors noted that the forthcoming visit of the FE Commissioner (which was intended to improve his understanding of the work of national colleges) might provide some indication of how the College's progress to date was viewed.</p>		



<p>It was agreed that the question of whether or not an accountancy-based audit firm could provide the full range of assurances required should be tested through the market. Prospective suppliers should be provided with copies of the Risk Register and asked to demonstrate how, over a three-year period, they would provide assurance on the risks already identified and other risks that the College might not yet have fully recognised. Governors would be looking for a proportionate and appropriately prioritised audit plan.</p> <p>Bidders should be interviewed by a Panel including Audit Committee members and a recommendation made to the June meeting of the Committee. That meeting would consider the assurance programme for 2017-20, and the arrangements for delivering that programme. AC and AS indicated their willingness to help with shortlisting and interviews.</p> <p><b>Action: Seek proposals for provision of board assurance 2017-20 (ACT 66)</b></p>	<p>MC</p>	<p>30/04/2017</p>
<p><b>7. Accounts direction</b></p> <p>The Committee was pleased to receive a report detailing the documents that would need to be considered and signed in relation the 2016-17 accounts, and agreed to recommend that the statement of corporate governance and the self-assessment questionnaire required for compliance with the post-16 Audit Code of Practice be reviewed by the Search and Governance Committee before being submitted to the Board, The necessary scrutiny could be undertaken at the September meeting of the Search and Governance Committee. Governors noted that the necessary evidence was likely to be more easily available than it had been in 2016.</p> <p>MC was asked to confirm that the questionnaire and the statements in connection with the accounts should be signed by the Chair of the Corporation in post at the time of signature.</p> <p><b>Action: Recommend to Board that the Statement of Corporate Governance and Internal Control and the self-assessment questionnaire be reviewed by the Search and Governance Committee (ACT 67)</b></p> <p><b>Action: Check that Chair in post at time of signature is responsible for signing all documents delivered in connection with the annual accounts (ACT 68)</b></p>	<p>NC</p> <p>MC</p>	<p>12/04/2017</p> <p>23/06/2017</p>



<p><b>8. Risk Register review</b></p> <p>Governors welcomed the presentation of the Risk Register in the form of a 'heat map', highlighting the most extreme risks and those that had increased in severity.</p> <p>In relation to the risk of the College being unable to recruit or retain staff of sufficient quality in time to deliver the curriculum – the only risk shown in the 'red' category – CM reported that good progress was being made in recruiting to the four curriculum leader posts. Seven candidates had been interviewed and three taken forward for full assessment.</p> <p>Of the three risks that were considered to have increased in severity, the only one in the 'amber' category was the risk of the project not being delivered on time because of under-resourcing of the delivery team. CM said that additional temporary staff would be required over the next few months and some permanent recruitment would need to be brought forward if the College were to open in September. The workforce plan was currently being reviewed and financial proposals would be discussed with the Chair of the Finance and Resources Committee before being put to the Board. Governors emphasised the importance of moving rapidly to mitigate this risk, seeking governor approval outside scheduled board and committee meetings if necessary.</p> <p>In response to a question, CM confirmed that there were no other risks requiring the Committee's immediate attention.</p> <p>Reviewing the general approach to risk management, the Committee agreed that the Risk Register presented a balanced view of the risks to which the College was exposed. There was, however, a need to set out in more detail how each risk was being mitigated, including discussion of the actions taken and also of the possible actions that had been considered and rejected.</p> <p>It was also agreed that, now that a full executive team was in place, the ownership of each risk should transfer from the existing 'board champions' to named members of the executive.</p> <p>The Committee asked that future meetings should focus on aspects of the Risk Register, considering on each occasion a group of risks on a cyclical basis.</p> <p><b>Action: Make changes to Risk Register and to activity schedule to reflect the above (ACT 69)</b></p>	<p>MC/ New Clerk</p>	<p>23/06/2017</p>
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<p><b>9. Other business</b></p> <p>CM told the Committee that the documentation for the working capital loan of £8.3 million had final been agreed by the Department for Education (DfE). DfE wanted to disburse the first tranche of funds not later than 31 March. In answer to a question, she confirmed that the repayment schedule matched that in the College's own financial projections.</p> <p>The Committee congratulated the CEO and Finance team, on bringing this matter to a conclusion and agreed that the Committee Chair should sign the agreement pursuant to the authority delegated by the Board.</p> <p><b>Action: Sign loan agreement with DfE (ACT 70)</b></p>	<p>NC</p>	<p>28/03/2017</p>
<p><b>10. Date of next meeting</b></p> <p>Confirmed as Friday, 23 June 2017, 1000 - 1200</p>		