

AUDIT COMMITTEE

Minutes of the Meeting held on 1 December 2020 at 17:30

A Microsoft Teams meeting

Present

Governors:

Kevin Gaffney	Chair
Stephen Bolton	
Lucy Hodgson	
Tony King	
Denis Miles	
Debbie Morris	
Sue Nicholls	

In Attendance:

Stuart Laverick	Principal
Nicki Williams	Vice Principal and Deputy Chief Executive Officer
Cherie Clements	Director of Finance
Tony Felthouse	Senior Manager, KPMG (External Auditors)
Louise Tweedie	Partner, RSM Risk Assurance Services LLP (Internal Auditors)
Kay Kavanagh	Clerk to the Corporation

Action

21.1 Apologies

No apologies were received.

21.2 Declarations of Interest

Members were asked to declare any Interests, financial or otherwise, which they may have in any Agenda Item. Members confirmed that they had no interests to declare.

LH declared that she had notified the standards board of Worcestershire Council that she possibly breached covid rules. LH confirmed that this was later dismissed as no breach was made.

21.3 Audit Committee Concerns

Members were invited to raise any issues which they wish to discuss. Members confirmed that there were none.

21.4 Auditor Concerns

The Auditors were invited to raise any issues which they wish to discuss, and all confirmed that there were none.

21.5 Minutes of the Previous Meeting

Minor corrections were highlighted in the papers. The Audit Committee **approved** the revised Minutes of the meeting held on 30 June 2020 as an accurate record for signature by the Chair, subject to the amendments being made.

21.6 Matters Arising

The Audit Committee **monitored** action taken, and remaining to be taken, in respect of Matters Arising from the Minutes of previous meetings.

6 actions had been completed or would be addressed during the meeting. 1 action was carried forward.

Governors **noted** the update to the feedback produced from the FE Commissioners Investigation Report, noting the two amber items, and agreed that no further monitoring is required as these items are included on the Governance Improvement Plan.

Governors **received** the Post-16 Audit Code of Practice 2019-20.

21.7 Determination of Any Other Urgent Business

No other urgent business was determined.

21.8 Audit Committee Performance Review

Governors **monitored** the effectiveness of the Audit Committee in 2019/20. Governors **noted** that there are no areas of non-compliance following a review of Terms of Reference. Attendance in 2019/20 was 90%, up 4% from the previous year and above the target of 85%.

Governors **reviewed** the Terms of Reference for the Audit Committee and **recommend** changes to the Corporation for approval:

- Dates to be updated
- Post-16 Audit Code of Practice date to be updated.
- Details to be added concerning 'Sub-Contracting', given the requirement in the latest Post-16 Audit Code of Practice.

21.9 2019-20 Financial Statements

a) Engagement Letter

Governors **received and noted** the Engagement Letter with KPMG dated 5 November 2020. Governors **recommend** the approval of the Engagement Letter by Corporation on 15 December 2020.

b) Regularity Self-Assessment Questionnaire

Governors **reviewed** the Regularity Self-Assessment Questionnaire, **noting** that there were no areas of non-compliance and **recommend** that the College Accounting Officer and Corporation Chair sign the Regularity Self-Assessment Questionnaire.

Governors agreed that the output from the questionnaire demonstrates the way in which the Governors used technology and adapted during the Covid-19 pandemic.

c) External Audit Report to the Audit Committee

Governors **reviewed** the findings of the audit with the external auditor.

TF explained that due to the restrictions in place due to Covid-19, the Audit was successfully carried out remotely, utilising SharePoint amongst other tools.

Governors noted the following summary:

- **Valuation of pension liabilities:** Remains ongoing
- **Revenue Recognition:** The results of testing were satisfactory, and the amount of revenue recognised was acceptable. Final data is expected from the ESFA over the coming days
- **Management override of controls:** No issues identified
- **Going concern:** Ongoing. An internal consultation process is progressing
- There are no controlled deficiencies

A **governor challenged** the breach of the covenant. TF explained that the reason for the breach was due to a large increase in pension liability. This was additional information from the balance sheet date. CC explained that the College have received an amendment to the agreement removing the “Net Assets (including pension liabilities”. This will be approved by Corporation in December 2020 and no further action will be taken by the lender. The November forecast projects the remaining two covenants will be met at 31st July 2021. Governors **challenged further** questioning if this could cause the College to go into ‘intervention’. TF confirmed that it could be the case for many colleges and that he would be happy to support in any conversation with the ESFA.

KG/AK **challenged** the accounting treatment of the loans within the financial statements which, as a result of the breach, show as current liabilities. TF responded that despite the waiver being signed off in December this was the correct treatment as per KPMG technical team.

Financial Health is at ‘Good’.

Governors thanked CC and the Finance Office Team, noted the positive outcome of the External Audit Report and **recommend** the External Auditors Report to the Audit Committee to the Corporation for approval.

d) Letter of Representation

Governors **received** confirmation from College Management that the contents and representations in the Letter of Representation are appropriate, that risk management and internal controls have operated

effectively in their areas of responsibility throughout 2019/20 and that that the College has complied with the Financial Memorandum.

Governors **reviewed** the Letter of Representation for the year ended 31 July 2020 and **recommend** it to the Corporation for approval.

e) Going Concern Review

Governors **received** confirmation from College Management that the going concern basis remains appropriate.

Governors **received** the cashflow forecast for the period to 31 July 2022.

Governors are assured that the College can meet its liabilities as they fall due for the period until July 2022 and onwards until a medium term.

f) Financial Statements

College processes and internal controls, the use of the Casterbridge College standard format and all annual audit processes support the integrity of the 2019/20 Financial Statements. Governors are assured that there are no significant financial reporting issues and judgements which management feel should be brought to the attention of the Audit Committee.

There is an operating deficit of £81,000 before restructuring and pension costs charged to the Statement of Comprehensive Income, and a deficit of £1,924,000 after these charges. The total Comprehensive Income for the year is -£13,684,000 after the significant actuarial loss in respect of pension schemes is included of £11,751,000.

Governors **recommend** the Heart of Worcestershire College financial statements for the year ended 31 July 2020 to the Corporation for approval

g) Teachers' Pension Statement

Governors **noted** the Engagement Letter with KPMG and **received** the Teachers' Pension Statement. There were no questions.

h) Subsidiary Company Accounts

Governors **noted** the Molinna Ltd and NEWCEL Accounts

There are no trading activities in either company during the year ended 31 July 2020 and are prepared as dormant accounts; they are therefore exempt from an annual audit and no sign off is required from KPMG.

21.10 Internal Audit:

a) Annual Report 2019/20

Governors **received** the Internal Auditor's Annual Report for the year ended 31 July 2020.

For the 12 months ended 31 July 2020, the head of internal audit opinion for Heart of Worcestershire College was as follows:

“The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework for risk management, governance and internal control to ensure that it remains adequate and effective”.

The report included a summary of the work completed during the year, which the opinion was based upon.

The Audit Committee thanked the College and the Finance Team and **recommend** the Internal Audit Annual Report for Corporation approval.

b) Internal Audit Progress Report

Governors **received** the Internal Audit Progress Report.

A governor **questioned** of the fieldwork for Compliance and Health & Safety included the additional Health & Safety requirements for Covid-19. LT confirmed that it covered both (normal and additional for Covid-19).

Governors **noted** the requirement to discuss risk appetite following the updated Post-16 Audit Code of Practice. NW confirmed that risk appetite forms part of the College Risk Management Plan and is also covered in the risk register. SL explained that there is increasing pressure from the ESFA for Colleges to open as normal throughout the continued pandemic. The College must balance service and safety.

Governors **agreed** that risk appetite should be included in the 'Governance and Risk Management Arrangements' internal audit, taking place in spring 2021.

21.11 Audit Committee Annual Report

Governors reviewed the Audit Committee's Annual Report to the Corporation for the year ended 31 July 2020, noting that the items highlighted in Yellow would be completed following the meeting.

Action: KK and KG to update the report to include the response of the Audit Committee to the Covid-19 pandemic.

KK / KG

The Audit Committee **delegated** authority to the Audit Committee Chair to approve the final version of the Audit Committee Annual Report 2019/20 for submission to the Corporation.

21.12 Risk Register and Assurance Framework

a) Risk Management 2019/20 Report

Governors **reviewed** the Risk Management Report noting:

- Updates concerning Covid-19
- Risk appetite entries

The report describes the Risk Management process, including how risks are identified and managed – including those factors influencing the inclusion and classification of risks within the register, how risk is embedded at the colleges, the ongoing use and development of assurance frameworks, together with a summary of work undertaken by the internal audit service provider during 2019/20 with regards to risk management and assurance frameworks.

The Risk Register and risk management process provides college management with a framework that improves their ability to plan for and mitigate the impact of potential issues identified, and via review by Audit Committee and Corporation ensures an independent review of working practices, processes and procedures.

Governors **recommend** it to the Corporation for approval.

b) Risk Management Plan for 2020/21

Governors **considered** the Audit Committee's approach to monitoring Risk in 2020/21.

c) Strategic Risk Register – Autumn Term 2020

Governors **monitored** the College Strategic Risk Register.

The College Risk Register has been reviewed for the Summer Term 2019/20. The full Risk Register available on the Governors Portal. A list of highlights was provided detailing changes made by the Risk Management Group to the College Risk Register for the 2020/21 Autumn Term.

Two risks have been removed during the Autumn term review:

- Clerk appointment – new Clerk appointed 2019/20
- Failure to meet Careers Strategy & Gatsby benchmarks – now embedded successfully in College processes and College continues to meet all required standards

Both Internal and External auditors were asked if they perceive any risks being missing from the register, with their knowledge of the sector. Both confirmed that the register was comprehensive, and nothing seemed missing.

A governor **challenged** the risk of funding for T Levels. NW confirmed that placements for 20/21 are hugely challenging due to COVID and that the ESFA are not yet flexing the rules of CDF to reflect this. A further update is due in January 2021. NW clarified that the financial value for this area was just under £300,000.

The following queries were raised:

- Risk 2.5: Is there any update on the possibility of centre assessed grades for English and Maths in 20/21? Further clarification is expected soon.
- Risk 3.8: Has further funding been confirmed? Yes, funding for TPS contributions will be awarded for all of 20/21.
- Risk 5.1: Will we be able to utilise the funding before the March 2021 deadline? Yes, although the funds have restricted criteria for use and the tight timescale of March 2021, we do expect to be able to fully utilise the funds.
- NW confirmed that the 'target risk score' is aspirational but could be used to confirm risk appetite.

Governors **recommend** the College Strategic Risk Register to the Corporation for approval.

21.13 Annual Procurement Report

The Annual Procurement Report presents a review of procurement activity during 2019/20 including spend values that exceed £50,000 during the year and initial plans for 2020/21. The College is committed to achieving value for money through its procurement whilst ensuring contracts, quotations and tenders are compliant with College Financial Regulations and EU Procurement Regulations.

Governors **reviewed** the Procurement Report for 2019/20 and **recommend** it to the Corporation for monitoring.

21.14 Students Union Accounts

The financial accounts for 2019/20 show a surplus of £15.

Pool takings were reduced due to lockdown and the pool tables not able to be used. Planned expenditure was put on hold due to lockdown.

Governors **noted** that the pool tables are currently closed due to social distancing measures. There is no projected income for the pool tables for 20/21.

Governors **recommend** the Students' Union Accounts for the year ended 31 July 2020 to the Corporation for approval.

21.15 Any Other Urgent Business

There was no other urgent business.

Action

21.16 **Date and Time of Next Meeting**
Tuesday 9 March 2021, 17:30 via Microsoft Teams

The auditors left the meeting (18:40)

CONFIDENTIAL ITEMS

21.17 See separate Agenda and Papers

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21.19

The meeting closed at 18:55

Signed:

Date: