

**AUDIT COMMITTEE**

**Minutes of the Meeting held on 30 November 2021 at 17:30**

**A Microsoft Teams meeting**

**Present**

**Governors:**

|                |       |
|----------------|-------|
| Kevin Gaffney  | Chair |
| Stephen Bolton |       |
| Tony King      |       |
| Denis Miles    |       |
| Steph Simcox   |       |

**In Attendance:**

|                     |   |
|---------------------|---|
| Stuart Laverick     | Principal   |
| Nicki Williams      | Vice Principal and Deputy Chief Executive Officer                               |
| Cherie Clements     | Director of Finance   |
| Nathan Coughlin     | Partner, Bishop Fleming (External Auditors)                                     |
| <b>Asam Hussain</b> | Risk Assurance Director, RSM Risk Assurance Services LLP<br>(Internal Auditors) |
| Kay Kavanagh        | Clerk to the Corporation  |

**Action**

- 24.1 Apologies**  
No apologies were received.
- 24.2 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.
- 24.3 Audit Committee Concerns**  
Members were invited to raise any issues which they wish to discuss. Members confirmed that there were none.
- 24.4 Auditor Concerns**  
The Auditors were invited to raise any issues which they wish to discuss, and all confirmed that there were none.
- 24.5 Minutes of the Previous Meeting**  
The Audit Committee **approved** the Minutes of the meeting held on 22 June 2021 as an accurate record for signature by the Chair.

**24.6 Matters Arising**

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

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

**24.7 Determination of Any Other Urgent Business**

No other urgent business was determined.

**24.8 Audit Committee Performance Review**

Governors **monitored** the effectiveness of the Audit Committee in 2020/21.

Governors **noted** that there are no areas of non-compliance following a review of the Terms of Reference. Attendance in 2020/21 was 90%, against a target of 85%.

Governors **reviewed** the Terms of Reference for the Audit Committee and **noted** item 3.1 concerning staff governors being members of the Audit Committee. After discussion, governors agreed to take the decision of whether staff governors should be able to serve on the Audit Committee, to Corporation.

**Action:** KK to add Audit Committee Terms of Reference discussion and approval onto the next Corporation agenda.

KK

**24.9 2019-20 Financial Statements****a) Engagement Letter**

Governors **noted** that the Engagement Letter with Bishop Fleming will be presented at the next Corporation meeting on 14 December 2021, for approval.

**b) Regularity Self-Assessment Questionnaire**

Governors **reviewed** the Regularity Self-Assessment Questionnaire, **noting** that there were no areas of non-compliance. CC highlighted Annex B, a supplementary questionnaire in relation to Covid-19.

Governors raised the following questions:

- Under funding arrangements, should it be stated that we have no overseas investments? CC explained that this could be stated.
- Under Appointments – can we state that references are obtained for new governors? CC explained that this could be added.

Governors **recommend** that the College Accounting Officer and Corporation Chair sign the Regularity Self-Assessment Questionnaire.

**c) External Audit Report to the Audit Committee**

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

NC explained that the audit is largely complete, however, is subject to the resolution of certain outstanding queries. Subject to the finalisation of these points, NC anticipates issuing unmodified audit reports for all entities.

A governor **questioned** the wording *'it is essential that the Governors confirm that our understanding of all matters referred to in this report are appropriate, having regard to their knowledge of the particular circumstances'*, asking how governors would have the explicit understanding of the findings. NC clarified that it should also state *'to the best of your knowledge and to suit your role'*. NC added that it is governor's responsibility to approve the financial statements.

Governors noted:

- Readiness for Audit: Green (Good)
- Quality of Financial Statements: Green (Good)
- Accuracy of financial records: Green (Good)
- Quality of working papers: Amber (Adequate)
- Availability of Staff: Green (Good)

NC provided an overview of the Auditing standards and regulations, adding that the College is in a strong financial position, with good cash reserves. The college have achieved strong growth in income and have made a surplus after the technical accounting pension adjustments. The College has generated £4.7m of cash from operating activities in 2020/21.

The comprehensive going concern self-assessment has been reviewed. NC confirmed that the self-assessment considers compliance with loan covenants and the fluctuations seen in cash balances throughout the year due to the timing of ESFA funding. It highlights that in the 12-month period from the date of signing the financial statements, cash is not expected to drop below £3.5m.

The College has tracked expenditure against specific purpose grants from the ESFA and at year end holds a creditor balance of £1,560,000 in relation to amounts received and not spent or amounts repayable to the ESFA. This amount has increased significantly in the year, £1,021,000 relates to funding received in 2020/21.

The largest elements of the current year balance are the accrual for the clawback of Adult Education Budget of £403,000 and £279,000 of unspent 16-19 Tuition Fund income. The Tuition Fund income has been provided by the ESFA for colleges to support students whose learning has been disrupted by Covid-19. NC confirmed that he is satisfied that the current year balance is not materially misstated. The remaining ESFA creditor balance can be summarised as:

- Bursaries of £304,000

- Other balances pre 2020/21 of £234,000

NC confirmed that a recommendation has been included in the control points that this should be reviewed and cleared down during 2021/22.

NC explained that bad debt provision of £440,000 is significant against the total of trade debtors being 76% of total trade debtors.

This provision is due to:

- Older debts from before 2020/21 remaining of the ledger as they are being pursued by collection agencies or the College for completeness, but a provision is appropriately held against the balance. Payment plans are in place for some of these debtors, but balances can take a long time to be cleared down and some provision is considered necessary.
- Consideration of the impact of Covid-19 on the ability of some students to clear debts has resulted in a more lenient approach being taken over the last 18 months. The College were keen not to put excess stress onto students in an already troubling time.

NC is satisfied that the provision is materially correct. Bishop Fleming have made a control recommendation that debtors should be more actively pursued before they become aged and less likely to be recovered.

Regarding the underlying financial position, NC confirmed that whilst the statutory accounts show an increase in the deficit year on year the underlying performance has improved. The College has made an underlying operating surplus in 2020/21 versus an almost breakeven position in the prior year.

The Chair stated that the approach taken in terms of the financial statements, particularly around the balance sheet, is one of prudence.

A governor **questioned** the item regarding quality of working papers, and how this can be improved. CC explained that as this was the first year for the College to work with Bishop Fleming, new methods need to be established.

CC gave further clarification around debtors, explaining that the overall debt is reducing due to the improvements being put in place. CC will consider the pre-merger debt and provide updates at future committee meetings.

A governor **asked** for comments from both NC and CC on how the first audit has worked, from a virtual point of view. CC explained that the process was smooth, with Bishop Fleming utilising SharePoint for document sharing. NC added that clearer communication will assist in the future, and a blend of approaches will continue to be used.

Governors thanked CC and the Finance Office Team, noted the positive outcome of the External Audit Report and **recommended** 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 2020/21.

Governors **reviewed** the Letter of Representation for the year ended 31 July 2021 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.

f) **Cashflow forecast**

Governors **received** the cashflow forecast for the period to 31 July 2023.

Cash balances planned for year ending July 2022 were £4.6m, the lowest point as per the budgeted cashflow forecast in 2021/22 is £3.5.m in March 2022.

Final cash balances for 2020/21 were £8.5m, this is higher than the budget and financial plan; this was largely due to an improved outturn to a surplus position, higher than anticipated cash receipts and sales ledger income, along with later than expected capital expenditure.

A governor **questioned** there being little capital spend, and questioned if there would be an opportunity? NW confirmed that should opportunities arise, with appropriate terms and conditions, then there could be flexibility. NW commented on her disappointment that ECO spend is not offered for funding.

Governors are assured that the College can meet its liabilities as they fall due for the period until July 2023 and onwards until a medium term.

g) **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.

CC explained that the document is still draft and should governors have any comments, governors are to let CC know.

A governor would like the addition of the College signing up to the 50% reduction in carbon emissions by 2030 added to the document. CC agreed.

Governors **recommend** the Heart of Worcestershire College financial statements for the year ended 31 July 2021 to the Corporation for approval.

**h) Teachers' Pension Statement**

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

**i) 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 2021 and are prepared as dormant accounts; they are therefore exempt from an annual audit and no sign off is required from Bishop Fleming.

A governor **questioned** the value of keeping these accounts as dormant. NW explained that they had been used for historical benefit, and it had been previously agreed to keep the accounts as dormant, should they be required again in the future. Governors agreed.

**24.10 Internal Audit:**

**a) Annual Report 2020/21**

Governors **received** the Internal Auditor's Annual Report for the year ended 31 July 2021.

For the 12 months ended 31 July 2021, 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.

AH confirmed that the first audit of the year has now been completed (data protection audit), with future audits scheduled.

RSM provided several briefings for governors, which governors noted.

**24.11 Sub-Contracting (External Assurance)**

Governors **received** the advisory report and certificate, noting that this had been submitted to the ESFA.

## 24.12 Audit Committee Annual Report

Governors reviewed the Audit Committee's Annual Report to the Corporation for the year ended 31 July 2021, noting that the items highlighted in Yellow would be completed following the meeting.

A governor questioned the Whistleblowing Policy, and if this should be updated to show the annual report. **Action:** KK to update the Whistleblowing Policy section to reflect the annual updates.

KK

The Audit Committee **delegated** authority to the Audit Committee Chair to approve the final version of the Audit Committee Annual Report 2020/21 for submission to the Corporation.

## 24.13 Risk Register and Assurance Framework

### a) Risk Management 2020/21 Report

Governors **reviewed** the Risk Management Report. NW explained that The Risk Management approach adopted by the Colleges should ensure that they comply with both risk management best practice and with the Turnbull Guidelines for Corporate Governance (the Turnbull Report).

An internal audit take place last year on governance, which also covered risk management. This included one recommendation, which has resulted in two new elements being incorporated into the report.

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 2020/21 with regards to risk management and assurance frameworks.

Governors noted that the report was incomplete. **Action:** KK to issue the full Risk Management 2020/21 Report to committee members, for full review and comment prior to Corporation approval.

KK

A governor questioned if the work carried out by governors during October would be included in the full report. NW explained that it is included in the full report, and further risk management advice has been received from RSM.

Based on receiving the full report, Governors **recommend** the Risk Management 2020/21 Report to the Corporation for approval.

### b) Risk Management Plan for 2021/22

Governors **considered** the Audit Committee's approach to monitoring Risk in 2021/22.

The Risk Management Plan is updated annually, and the 2021/22 review has been completed. No changes are proposed to the Plan for 2021/22.

**c) Strategic Risk Register – Autumn Term 2021**

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

The College Risk Register has been reviewed for the Autumn Term 2021/22. The full Risk Register available on the Governors Portal. A list of highlights was provided detailing changes made.

NW explained that following the recommendations from the internal audit, amendments have been made, with the addition of a risk consequence section for each risk. Risks around the Coronavirus pandemic were added in 2019/20 & 2020/21 and continue in the current update. Alongside the risk register the College has a detailed Covid Return to Work Plan which gives more detail on specific Covid risk management. For 2021/22 new risk have been added in relation to Environment and Carbon reduction targets both from a management and a governance aspect.

A governor **questioned** the funding levels and if they are as expected. CC explained that in terms of Learner Numbers, the first ILR will be submitted next week, and an indication maybe available for governors for the January Corporation meeting. Risks have been scored in terms of this year's enrolment against targets.

A governor **questioned** why there is a current RED risk, with a target of RED. NW explained that for this instance, the risk cannot be influenced.

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

**24.14 Annual Procurement Report**

The Annual Procurement Report presents a review of procurement activity during 2020/21 including spend values that exceed £50,000 during the year and initial plans for 2021/22. 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 **raised** the following questions:

- Does the EU Procurement Policy still apply? CC advised that the policy may be changing in January 2022. Any significant changes will result in policy updates that will be presented to Corporation.
- Is the relationship with Tenet still robust? CC explained that the College continues to work with Tenet Education Services who provide specialist on site procurement advice and support in the form of a Procurement Officer who works flexibly with the College.
- Are the contracts for Gas & Electric variable, or fixed? CC explained that the contracts expired at the end of September and are now variable contracts. There has been an increase of around 20% for both services. Green procurement will be explored.



**Action**

- Will the College be reviewing the services provided by Harris and Associate Surveyors? NW explained that for larger capital projects specialist support is obtained from Harris and Associate Surveyors in preparing detailed drawings and specifications within the tender pack. Costs are higher this year due to funded projects. The industry benchmark is around 15-20%, and Harris and Associates are 10-12%. Governors were assured that Harris & Associates remain competitive and no tender is required but would like further detail. **Action:** NW to produce an overview of Harris & Associates for the next Audit Committee meeting.

**NW**

Governors **reviewed** the Procurement Report for 2020/21 and **recommend** it to the Corporation for monitoring.

#### **24.15 Students Union Accounts**

The financial accounts for 2020/21 show a surplus of £395. Income is derived from consistent Totum card sales generating an income for the Students Union. There continues to be low uptake in the purchase of Totum cards.

In previous years income was also generated from the usage of pool tables in Redditch, Bromsgrove and Worcester. Due to lockdown and COVID-19 restrictions the pool tables were not in use for 2020/21 and therefore did not generate an income.

Governors **recommend** the Students' Union Accounts for the year ended 31 July 2021 to the Corporation for approval.

#### **24.16 Any Other Urgent Business**

CC questioned if the External Auditors should present to Corporation in December, given the new requirement in the P16ACOP. NC explained that he would be happy to attend remotely at an appropriate time. **Action:** NC to liaise with KK to arrange attendance and presentation at Corporation.

**NC**

#### **24.17 Date and Time of Next Meeting**

Tuesday 8 March 2022, 17:30 via Microsoft Teams

Auditors left the meeting at 18:50

#### **CONFIDENTIAL ITEMS**

**24.18** See separate confidential minutes.

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**24.21**

The meeting closed at 19:10

**Signed:**

**Date:**