

**Minutes of the Meeting of the Audit Committee
held on Monday 2 December 2019**

- Present: -** Mr Mike Rookes (Chair)
Mr Graham Briscoe (Co-opted Member)
Ms Emma Lewis (Co-opted Member)
Ms Katie Seekings
- In attendance: -** Mr Tim Williams (Finance Director)
Miss Jane Simons (College Accountant)
Mrs Linda Watkins (Clerk to the Governors)
Ms Abigail Appleton (Principal)
Ms Laura Goodwin (RSM)
Ms Louise Tweedie (RSM)
Ms Carol Davey (Mazars)

The meeting was quorate as four members of the Audit Committee were present.

1. **Apologies for Absence**
No apologies.
2. **Declarations of Interest**
None declared.
3. **Confidential discussion with Auditors and without Officers present**
The Auditors confirmed that there were no issues to raise without officers present. Mazars stated that the process and progress of the financial statements audit was reflected in the reports presented. There were no comments from RSM.
4. **I. Minutes of the Last Meeting**
The Chair signed the minutes of the meeting held on 10 June 2019 as a true record.

There was only one matter arising which would be addressed on the agenda.

The Committee agreed: -
 - To approve the minutes
5. **Value for Money Annual Report to 31 July 2019**
Members noted the Annual Value for Money Report outlining procurement processes to ensure value for money. This showed the College had satisfactory arrangements to promote economy, efficiency and effectiveness. The F&GP Committee had discussed course viability in November 2019 with further discussion at the next Board meeting.

Last year the financial plan submitted to ESFA had placed the College's financial health as 'requires improvement'.

The OfS assess value for money from a tax payers' perspective as part of the Teaching Excellence Framework (TEF) and regulatory process. This would include graduate outcomes and continuation rates. These are also key elements of the

OfS's view on value for money for students.

A Governor asked if the College had paid its OfS subscription on time. The Finance Director confirmed that the subscription had been paid but the subscription invoice for QAA was not received by the College until June and paid in August after the deadline. 250 HE providers had not paid this subscription on time and the OfS had sent a strongly worded letter to all those who had not met the deadline. Of the other three deadlines in the letter the College had met all three.

A Governor asked about space utilisation and if the College has sufficient space. The Finance Director responded that space utilisation would need to be reviewed if the College expanded.

There was a suggestion to consider including sustainability in the value for money report. A draft sustainability statement had been prepared and discussed by some committees and the Student Council recently which the Board would be required to endorse.

The Committee agreed: -

- To recommend that the Board endorse the value for money annual report to 31 July 2019 which provided assurance of practices

6. Report on non-competitive-tendered contracts to 31 July 2019

This reported that there were no contracts that were over £30,000 that were not tendered in the year to 31 July 2019. The College has a limited number of contracts and tenders. A Governor asked about the requirement for three written tenders with an option for the Finance Director to waive this. In this event, this would be raised with the F&GP Committee and Audit Committee.

The Committee agreed: -

- To note the report on non-tendered contracts to 31 July 2019

7. ACOP regularity self assessment

The ACOP requires completion of the self assessment to provide clarity of the accountability framework, key requirements and evidence to support the statement of regularity, propriety and compliance in the financial statements.

There was an amendment as there had been two trips abroad, the additional trip was made to Brussels by the Principal and Head of HE which was partly funded by the EU. Total costs to the College were no more than £1000. Mazars noted the amendment.

The Committee agreed: -

- To recommend that the Chair of the Corporation and Principal sign the regularity audit self assessment which Mazars had reviewed.

8. Annual Report and Financial Statements to 31 July 2019 and assurance

- I. RSM Internal Auditor's Annual Report for the year ended 31 July 2019 provided an overall positive opinion that the College had an adequate and effective framework for risk management, governance and internal control. The second level opinion was given as further enhancements had been recommended in some audit reports during the year.
- II. Mazars' Audit Completion Report for the year ended 31 July 2019 covered the purpose of the financial statements audit, financial performance, significant risks, accounting and audit issues to provide

assurance for the Corporation to sign off the financial statements to 31 July 2019.

The approach followed was in line with the audit approach agreed in June 2019 with confirmation that the finance team had provided relevant information.

Significant risks and key judgement areas were tested including that management did not override controls, revenue recognition and going concern. The financial statements confirmed that the College was a going concern and Mazars would issue an unqualified opinion. Mazars assessed the College's viability for the 12 months from the date of signing the financial statements. The College has a strong balance sheet.

Pensions are tested by actuaries and had not included an adjustment to the valuation in respect of potential GMP liability, but had incorporated the McCloud liability. Though Mazars recommended including GMP in the valuation, the fact it was not included was not material to the accounts and no adjustment was required.

There was benchmarking data on Principal salaries placing the College slightly below average. There were two minor control issues to the suspense account which had been cleared and an expense claim by senior personnel which did not have backing to support the claim. Both controls were accepted.

There were only two minor misstatements which were very positive with no significant issues identified during the audit.

There was reference to the uncertainties regarding Brexit and the potential impact on the sector.

OfS requirements will introduce more information on the going concern requirements. There will be additional disclosures and checks required by the auditors from next year.

- III. The Audit Committee's Annual Report to 31 July 2019 was discussed. The Committee is required to present an annual report to the Board to advise on the adequacy and effectiveness of the College's internal control systems in accordance with the Audit Code of Practice. This was a factual report detailing the work of the Committee to 31 July 2019.
- IV. The Principal recommended the narrative report for approval which incorporated the College's strategy. There was a suggestion to add the OfS and the College's validating university for HE into the section on Stakeholder Relationships. **ACTION PRINCIPAL/FINANCE DIRECTOR**
- V. The Finance Director reported that the F&GP Committee had discussed the financial data last week. He referred to the statement of comprehensive income showing that £997K related to an actuarial loss for the pension scheme which is a non-cash item. There will be an increase to the employers' pension contribution from 1 April 2019. There is a deficit of £648K and an EBITDA deficit of £11K which is an ESFA indicator which will categorise the College as 'requires improvement'. The strategy is to improve the EBITDA during the

current financial year. The balance sheet showed a decrease in current assets from £3.1 to £2.9M which remained strong. The Finance Director recommended the financial statements for approval. A Governor asked how the Student Union was operated which has a small budget but is not a separate identity. Next year's report could include Student Union activity. There was another question as the College does not have a reserves policy, which is mentioned in the members report. Though there was no policy, the Board had discussed cash reserves in July 2019 and at previous meetings as part of the Strategy. The amount of cash reserves expected to be retained was in the Financial Statements. The auditors confirmed that most colleges have a reserves policy to be able to operate covering about three months' expenditure. In the sector additional reserves afford opportunities for capital projects.

- VI. The Committee agreed to recommend the Board approve the members' report and financial statements to 31 July 2019 based on reports presented and assurance provided in the previous items.
- VII. The letter of representation was in a standard format and presented for approval to be signed by the Chair of the Corporation.

The Committee agreed: -

- To note RSM's annual report which would be presented to the Board which provided independent assurance
- To recommend that the Board endorse the Audit Committee's Annual Report which would also be submitted to ESFA along with the Members' Report and Financial Statements.
- To note the management letter confirming that Mazars had given HCA an unqualified audit opinion
- To recommend the Board approve the members' report and financial statements to 31 July 2019
- To approve the letter of representation
- To thank the Finance Director and College Accountant for their role to prepare the financial statements

9. RSM Internal Auditor's Reports

- I. RSM referred to the briefing requiring colleges to have a counter fraud strategy in accordance with the ACOP. ESFA have provided a self assessment checklist to counter fraud in colleges. A counter fraud strategy would be provided with an annual assessment to ensure this was effective. **ACTION: FINANCE DIRECTOR**

ESFA's education and skills contracts 2019/20 included a new requirement to comply to ISO27001 requiring colleges to achieve compliance by 2021. AoC has been lobbying on behalf of the sector to remove this requirement. If ISO27001 remains a requirement following the election then a gap analysis should be pursued in March 2020.

ESFA have introduced a new integrated financial model for colleges (IFMC) for one financial return each year which the Board will be required to sign off in February, before the deadline of the 28th February 2020.

- II. FE Risk Register Publication had been prepared identifying the top five risks in the sector amongst RSM's clients this year are finance and strategy, recruitment/HR, student experience, government policy

and compliance.

The Committee agreed: -

- To note the Internal Auditor's reports and useful sector updates

10. Risk Management Register and Report

High-scoring risks were discussed noting that the scores for OfS regulation and UWTSD had increased since the October 2019 Board. A reportable event was submitted to OfS last week regarding the College's financial health which is regulated by the ESFA. OfS had responded that they would respond to the College in due course.

The College has positive relationships with senior staff at UWTSD. Some courses are being revalidated this year which is a risk and some annual reports submitted late, which may raise concerns at UWTSD. The Head of HE and Principal were attending a Partnership Conference this week. Overall the risk was low but should not be taken for granted.

The College will submit quarterly management accounts and a cashflow to the ESFA who are monitoring the College finances and have also requested on the new digital futures course.

There was a question about the HE Implementation Manager post which was being advertised. The job description had been tweaked which incorporated several administrative tasks.

A Governor raised the new administration at Herefordshire Council with c50% new councillors which was a potential risk to the relationship with the College and would be included in the register. **ACTION: FINANCE DIRECTOR.** The Principal informed Governors that the leader of the Council had recently visited the College.

The Committee agreed: -

- To note the risk register

11. Recommendation Tracking

The Finance Director outlined the tracker. GDPR recommendations will be addressed as a priority with SLT prioritising recommendations. It was agreed that recommendation 8 was complete and would be removed. **ACTION: FINANCE DIRECTOR**

A Governor raised the number of recommendations and if this was a workload issue as numerous dates had slipped on the tracker with some significant compliance tasks. SLT would review leads, achievement and the option to buy in external support.

There was a question about registration of the Folly Lane site with Land Registry with confirmation that this had been discussed with the College's solicitor and in progress.

The Committee agreed: -

- To note the recommendation tracker and progress

12. Policy and Procedure List

This was a working document based on proposed policies for colleges in the sector. The health and safety policies had been reviewed with some further changes to ensure these reflect the College's structure. The review process for all policies has been staggered with more consultation before these are

presented to SLT for approval. Legislative policies would be taken to the Board for approval with other policies delegated to committees or SLT.

The Committee agreed: -

- To note the policy and procedure list and progress of policies

13. ESFA correspondence 3 October 2019: Sub Contracting the delivery of education and training using ESFA post-16 funds

This letter had been issued to all colleges. HCA does not sub contract provision.

14. Any Other Business

There were no items

15. Date and Time of the Next Meeting

The next meeting was arranged for Monday 30 March 2020 commencing at 1.45pm.

Signed as a true record of proceedings:

Chair: **Date:**



Minutes of the Meeting of the Confidential Audit Committee with Officers and without Auditors held on Monday 2 December 2019

Present: - M Mike Rookes (Chair)
Mr Graham Briscoe (Co-opted Member)
Ms Emma Lewis (Co-opted Member)

In attendance: - Mrs Linda Watkins (Clerk to the Governors)
Mr Tim Williams (Finance Director)
Miss Jane Simons (College Accountant)
Ms Abigail Appleton (Principal)

The meeting was quorate as three members were present

The following discussions took place without Auditors present

- 15. Apologies for Absence**
Apologies were received from Ms Katie Seekings.
- 16. I. Minutes of the Last Meeting**
The Chair signed the minutes of the last meeting without Auditors present held on 10 June 2019 as a true record.
- II. Matters arising from the Minutes**
There were no matters arising.
The Committee agreed: -
- To approve the minutes
- 17. Performance Indicators for Financial Statements Auditors (Mazars)**
The Finance Manager had completed the self assessment concluding that Mazars met all indicators and provided an effective service.
The Committee agreed: -
- To support scores for Mazars performance
- 18. Appointment of Auditors for next year and Tendering arrangements for Internal Auditors 2020/21**
The Finance Director reminded the committee that Mazars had been appointed for three years, this being their third year.
- RSM had been auditors for several years; however, there have been different audit managers and partners. RSM had indicated that the costs for the service would increase for next year as a result of legacy contracts being brought into line.
- The Committee agreed: -
- To appoint Mazars for a further year
 - To defer tendering for the Internal Audit Service until next year and discuss holding a joint tendering exercise with HLNSC.
 - To appoint RSM as internal auditors for 2020/21.
- ACTION: CLERK TO THE GOVERNORS**

Signed as a true record of proceedings

Chair: **Date:**