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Directorate: Governance

Minutes of: Audit Committee

Date: 27 November 2019 **Time:** 09.30

Venue: Executive Meeting Room, Uxbridge Campus

Present:

Nasim Khan (NK)	Governor (Chair)
Tracey Critchley (TC)	Governor
<u>Present for items 13 onwards</u>	
Alasdair MacLeod	Governor (Member of HCUC Resources Committee)
Steve Owen	Governor (Member of HCUC Resources Committee)
Sally Westwood	Governor (Member of HCUC Resources Committee)

Apologies:

Ketan Sheth	Governor
Lucky Dube	Interim Head of Finance

In attendance:

Darrell DeSouza (DDS)	Group Principal & CEO
Tracy Reeve (TR)	Clerk to the Corporation
Nick Simkins (NS)	BDO LLP (<i>external auditors HCUC</i>)
Shane Woodhatch (SW)	Group Director Finance & Resource Planning
<u>Present for item 13 onwards</u>	
Pat Carvalho (PC)	Principal Harrow & Deputy CEO
<u>Present for item 8 only</u>	
Andy Miller (AM)	Exec Director Corporate Services
<u>Present for items 8 only</u>	
Kath Rangeley (KR)	Director of Funding & Information Services

1. Chair's Agenda Item

The Chair informed the meeting that he had no business to raise under the Chair's agenda item.

2. Apologies for absence

Apologies had been received from Committee member Ketan Sheth and from Lucky Dube.

3. Notification of any urgent items members may wish to raise under Any Other Business

There was none.

4. Notification of Interests Members may wish to declare relating to any item

There were no declarations of interest.

5. Minutes of the meeting held on 19 September 2019

The minutes were approved and signed by the Chair.

6. Matters arising from the minutes of the meeting held on 19 September 2019 not on agenda

Provision for potential clawback of agency funding 2018/19 (minute 7 page 2): The Chair sought confirmation on whether a provision had been made in the financial statements 2018/19 to allow for possible clawback of funding. This was due to the national delay to the usual funding audit of the ILR (due to a lack of the template for the audit firms to follow); the funding audit could not now take place until after the finalisation of the 2018/19 accounts. GDFRP (SW) informed the meeting that after further

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consultation with the HCUC Director of Funding and Information Services and the external auditors, BDO, he was confident that such a provision was not required and so it was not included in the 2018/19 Financial Statements.

NOTED

There were no other matters arising that were not already on the agenda.

ITEMS FOR APPROVAL

7. To receive, re-consider and approve the annual report of the HCUC Audit Committee to the Corporation for 2018/19.

The Clerk (TR) introduced the final Audit Committee Report 2018/19. TR confirmed that this was as approved in draft format at the September 2019 meeting and the requisite amendments suggested at the previous meeting had been actioned. These were in relation to the delayed timing of the ILR Funding audit and the inclusion of the Ofsted Monitoring Visit in June 2019 as a source of external assurance.

The Annual Report of the HCUC Audit Committee 2018/19 was APPROVED for submission to the HCUC Corporation.

- Performance Indicators (PIs) 2018/19 for College external audit providers
 - **External Auditors, BDO (formerly Moore Stephens)**

The meeting considered the PIs relating to BDO's performance during the audit of the Financial Statements 2018/19, (same format as used in prior year). Both the College assessment and the external auditors' self-assessment had resulted in a wholly positive assessment.

The meeting APPROVED the assessment against the agreed PIs for the External Auditors 2018/19, BDO, as presented. [These would be submitted to the ESFA as an appendix to the HCUC Annual Audit Committee Report 2018/19.]

ITEMS FOR INFORMATION

8. Review of previous audit recommendations

In the absence of the Head of Finance (LD), the GDFRP (SW) presented a report on progress against the previous audit recommendations in relation to the audits of key financial controls and funding during 2018/19. The Exec Director Corporate services (AM) and the Director of Funding and Information Services (KR) joined the meeting for this agenda item.

Funding Audit (October 2018): The meeting considered the one recommendation RAG rated as 'amber' in relation to the need for a skill scan/ training needs analysis at enrolment for all Apprenticeship learners; this was required to confirm their eligibility. KR confirmed that this was classified as 'amber in the progress column as she was not 100% confident that this was in place for all apprenticeship learners. She confirmed that she was working with the Head of the College division responsible for apprenticeships and work based learning (WBL) - West Met Skills – to ensure this requirement was applied 100% of the time. The College had now implemented 'DocuSign' as a mandatory element to ensure consistency. Quality Audit checks would take place across the whole of the WBL curriculum during January to ensure that the systems were all in place. The Chair asked KR whether she would ever have complete confidence on this issue and she assured the meeting that she would ascertain full compliance, as she would dedicate staff resource to check ongoing compliance. The College had also introduced an additional layer of scrutiny with a requirement for the Head of School to sign off new WBL learners in relation to any reduction in funding due to prior learning. The Principal sought assurance around the historical learners where there would be a lag in the system to undermine compliance but KR assured

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DDS that any such cases would be highlighted by the manual checks. KR confirmed that the new system was already operational in high-risk curriculum areas e.g. engineering and that full completion would meet the target date shown on the report of February 2020.

Key Financial Control Audit (February 2019): GDFRP informed the meeting that the recommendation around debt collection had now been resolved after discussion with a consultant. SW informed the meeting that he was awaiting a report from the external consultant after a system health-check was undertaken in November 2019. The recommendation in relation to migration of assets at year-end had also now been completed for the year-end audit by BDO. SW confirmed that the dual-authorisation procedure for BACS payments were now in place.

Human Resources pre-audit: AM updated the meeting on progress against the action plan drawn up after he had undertaken an early 'internal' audit of HR systems before the formal internal audit of HR in January 2020. The meeting was reminded that an experienced system administrator for i-Trent had started work at HCUC in October 2019. The meeting noted progress on transferring all centrally held HR data onto i-Trent and the current work to free up space on the data drives to allow this to be completed. AM confirmed that the previously paper-based Harrow HR records had now been scanned and were held electronically. The Chair sought, and was given, confirmation that the College was fully GDPR compliant in relation to the holding of its HR data. The internal audit report from the HR Audit would be brought to the next meeting of the Audit Committee.

The Chair asked that for clarity all completed recommendations should be removed from the report.

The Audit Recommendations report was NOTED.

The GDFRP would remove recommendations from this report after they had been reported to Audit Committee as completed.

9. To receive the Risk Register update

The meeting received the HCUC Risk Register that detailed the risks mapped to the Strategic Aims and Corporate Goals of the College. It was noted that there had been no change since the last Audit Committee review in September 2019. The meeting discussed the following key risks in more detail and the mitigating actions put into place:

- 1.08 Insufficiently qualified and equipped staff to support the delivery of study programmes and quality outcomes for learners. (Risk score remains at 12 'red').
- 1.09 Failure to recruit sufficient staff, qualified at the appropriate level. (Risk score remains at 12 'red').
- 1.13 College SAR and/ or Ofsted rating falls below Outstanding within the new EIF. (Risk score remains at 12 'red').
- 3.11 Underachievement of funding targets (Risk score still at 15 'red'). The importance and possible impact associated with this risk meant that it had to remain at high level. However, the CEO reminded the meeting that enrolment figures for 2019/20 had been encouraging across the whole of HCUC.
- 3.14 Management Information – timely/ accurate (funding, finance, HR) (Risk score reduced from 12 'red' to 10 'amber'). There were consistent procedures across HCUC now in place and a restructure of all areas had taken place. The College had now allocated additional resources in several areas. The risk was reduced as the data was now consistent and the year-end data reconciliation and financial statements were complete.

The Chair questioned whether there were any 'amber' risks that the Audit Committee should be considering in more detail. SW assured the meeting that the Senior Leadership Team reviewed the whole of the Risk Register on a monthly basis and changed the risk profile from 'amber' to 'red', or from 'green' to 'amber' if, anything was a cause for concern. DDS confirmed that he was comfortable with the current risk profiles as reflected in the Risk Register as presented; his major concerns centred on the new Ofsted

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Education Inspection Framework and the College's new provision. However, DDS suggested that he would raise the 'high amber' risks as a specific discussion point at the next joint SLT meeting. SW informed the meeting that he was taking a paper to the Resources Committee with details of a new reporting requirement under the Office for Students. This new Reportable Events requirement would be added to the next version of the HCUC risk register.

The HCUC Risk Register was NOTED and RECEIVED.

The 'high-amber' risks on the Risk Register to be considered at the next joint SLT meeting.

Risk around OfS Reportable Events to be included in next version of HCUC Risk Register.

10. To receive a report on any additional work commissioned from auditors during 2019/20.

It was noted that no additional audit work had been commissioned by the College during the current academic year to date. SW informed the meeting that an audit of sub-contracting would be required; BDO would provide this early in January 2020 and report to Audit Committee in March 2020.

The report was NOTED

11. To confirm and agree the dates and times for the meetings in 2019/20

The dates and times of the meetings were agreed as follows:

- Wednesday 4 March 2020 at 9.30am
- Wednesday 17 June 2020 at 9.30am

12. Any Other business

There was no other business. The Audit Committee meeting closed at 9.55am and the joint meeting of HCUC Audit Committee and HCUC Resources committee commenced at 10.00am with Alasdair MacLeod (Chair of Resources Committee) as Chair of the Joint Committee meeting.

JOINT MEETING OF HCUC AUDIT AND RESOURCES COMMITTEE

ITEMS FOR DECISION

13. To RECEIVE the Report & Financial Statements and associated reports for the period ended 31 July 2019 for Uxbridge College

i) Financial Statements

The GDFRP (SW) introduced the draft reports and financial statements for the period ended 31 July 2019 and highlighted that the Resources Committee would be required to approve the Report and Financial Statements and then recommend to the full HCUC Corporation for approval.

The following key points were highlighted:

- The operating surplus for the year was £1,005,000 (compared with £547,000 in 2017/18). This equated to 1.14% of income.
- Once the impact of the £6.4m actuarial FRS17 pension loss was applied this resulted in a 'Total Comprehensive Loss' of £5.473m.
- The balance on the income and expenditure account (excluding pension reserve) now stood at £71.777m (compared with a figure of £68.950m in 2017/18).
- Total income for the year was at £50.102m compared with £49.365 in the prior year. This included a 30% increase in Element 2 funding to reflect the increased number of High Needs learners.
- Total expenditure was at £49.097m compared with £48.786m. The increase of £311,000 equated to a figure of 1% increase and the meeting noted that within this figure £279,000 was for exceptional

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staff restructuring costs post-merger. Other operating expenses were flat at circa £10.2m in the current and prior year.

- The College had accumulated reserves of £54.679m, non-current assets of £93.065m and cash balances of £19.935m.
- Net Current assets were at £9.238m compared with £8.888m in the prior year.
- The LGPS pension liability was noted as £21.773m compared with £13.521m last year. Governors were reminded that the pension liability (FRS17) was not included by the ESFA when assessing the financial health of colleges. The reason for this large movement was a change in the actuarial assumptions, specifically in the discount rate used. However, external audit partner Nick Simkins (NS) confirmed that the assumptions used by the College actuaries were largely in line with those used at other Colleges by different actuaries. However, the 2.1% discount rate used for HCUC was at the upper limit of an acceptable range based on the benchmark data of 2.1%. NS highlighted that the important issue for the College to keep a close eye on were the underlying contribution rates payable and the tri-ennial revaluation.

The meeting went through the Income and Expenditure account and the Notes to the Financial Statements and Balance Sheet in detail. The meeting noted that in 2018/19 the College delivered activity that produced £41.522m in Agency main allocation funding (compared with £40.361m in 2017/18). The total Agency funding was at 81.3% of income in 2018/19 (81.6% in prior year). SW confirmed that the depreciation at Harrow was now correct and he had released the provision to allow for this. The meeting noted the detail of the fixed asset additions during the year, which amounted to £6.833m; of which £5.366m was on land and buildings and £1.467m was on equipment. The meeting noted the strong financial performance indicators for the 2018/19 year which included a very strong operating cash inflow (£2.2m) as well as the following:

- Operating surplus of 1.14% of income (1.14% in 2017/18).
- Current ratio (assets over liabilities) of 2.12 (1.9 in 2017/18).
- EBITDA (education specific) - earnings before interest, tax, depreciation and amortisation - at 13.0% which was an increase on the prior year figure of 12.12%.
- 67% staff costs as a percentage of income including agency staff (69% in prior year).

The notes to the accounts were considered in detail by the meeting. The meeting also considered and noted the Statement of Corporate Governance and Internal Control and the assessment of the College as a 'going concern'. SW confirmed that the other senior members of the SLT at HCUC had contributed to the narrative of the Members Report on HCUC Strategy, curriculum and the summary of capital works undertaken at the Harrow Weald and Harrow-on-the-Hill campuses. The meeting commended the strong financial results and agreed that the College was in a position to meet current and future economic challenges from a position of relative strength when compared with many other FE Colleges. It was agreed that the College's key strategic aim in relation to finances 'To maintain the strong financial profile needed to ensure a secure future', had been fully achieved.

The Chair of Resources Committee highlighted that he had found a couple of typographical errors in the narrative; he would e-mail the detail of these to the GDFRP for correction.

The Chair of Audit asked that the final column on the Governors listing be amended to 'Overall attendance (page 13 of the financial statements).

ii) July 2019 Management Accounts

The restated Management Accounts for 31 July 2019 and the adjustments arising from the preparation and audit of the Financial Statements were noted by the meeting. Adjustments totaling £175,000 were made against the income and expenditure. As previously noted by the meeting the revised operating surplus was £1,005,000 against a forecast surplus of £710,000. The Chair sought clarification on the adjustments and was informed that they were in relation to the reversal of capital grants for the Institute of Technology and Armstrong and Newton buildings that had been expected but were not received; SW and LD had identified this error in advance of the BDO audit commencing. Governors sought clarification

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on the £952,000 adjustment to rectify the Harrow opening balance and bring it into line with the HCUC financial statements. SW confirmed that this was remedied through the trial balance to align with the management accounts; fixed assets as a balance. NS confirmed that this adjustment of the ledger/ trial balance had no impact on the financial outcome and was not an audit concern.

The 2018/19 Financial Statements and July 2019 Management Accounts were NOTED and RECEIVED, (they would be recommended to the HCUC Corporation for approval by the Resources Committee).

iii) *Audit Findings Report of the External Auditors, BDO, following their audit of the HCUC Financial Statements for 2018/19, for APPROVAL & recommendation to Corporation.*

Nick Simkins (NS) of BDO LLP (formerly Moore Stephens LLP) presented the Audit Findings Report to the Governors, which acknowledged the strong financial outturn and cash position for HCUC. The meeting was pleased to note the clean unqualified opinion on the financial statements and for the regularity audit. NS informed the meeting that once again, the audit had gone very smoothly from their perspective; the flow of information from management had been accurate and timely; he reminded the meeting that this was a notable achievement as it was SW and LD's first year in post at HCUC. SW agreed that the audit process had gone well from the College management perspective from the planning stage to the completion of the audit. The Management Report was considered in detail.

The meeting was pleased to note that the audit conclusion on all qualitative aspects considered was clean; NS also highlighted the unmodified regularity audit opinion. The meeting noted the materiality level which had been set at £750,000, based on 1% of income. The meeting went onto consider the significant audit risks that had been identified by BDO and detailed in their audit-planning letter. The risks were noted as follows: revenue recognition; management override of control; and the pension liability valuation. Governors noted that BDO conclusion against all three of these risks was clean and that there were no issues identified which needed to be reported to the Audit Committee. Governors sought clarification on what was meant by 'GMP equalization' in relation to the defined benefit pension scheme. NS informed the meeting that this referred to the requirement for pension contributions to be equalized between women and men. The meeting also noted the adjustment made for the opening balance in relation to assets under construction; this £2m adjustment was made by management and was reflected in the final statements. The Chair of Resources Committee sought clarification on when depreciation on assets under construction commenced; SW confirmed that this was when the building was operational and ready for occupation. Governors also noted the positive assurances given by BDO around the risks of fraud and independence and related party transactions. The meeting spent some time discussing the need for the College to remain vigilant as the incidence of fraud and financial scams being perpetrated in the FE sector was on the increase. The importance of going concern was discussed and Governors were reminded that this would be discussed under a separate agenda item. The meeting noted pages 15 and 16 of the BDO Management Report that detailed the adjustments made during the audit process. In total these adjustments had the net effect of decreasing the operating surplus by £119,000 and were all approved and actioned by the management of the College; this was below the level of materiality for the audit.

NS highlighted that during the audit there had been two weakness of controls identified which had resulted in recommendations for improvement; one in relation to the Fixed Asset Register and the other to Accruals listing. Both recommendations were accepted by College management and would be actioned as soon as possible; the College FMIS would be updated with current IT and estate valuations. The meeting agreed that the low number of recommendations highlighted an ongoing positive control environment at HCUC. The Audit Committee members commended the College finance team and BDO for another positive result.

The Audit Report and Management Letter of the External Auditors, BDO LLP, for HCUC 2018/19 was APPROVED and would be taken to the HCUC Corporation for approval (10/12/19).

iv) Letter of Representation

The meeting noted the draft Letters of Representation; one for the Financial Statements and one for the Regularity Audit. NS confirmed that these letters had a standard format for all FE Colleges – dictated by the Joint Audit Code of Practice – they did not include any narrative specific to HCUC.

The Letter of Representation for HCUC would be taken for approval to the HCUC Corporation (10/12/19) before being signed by the Corporation Chair on behalf of the Corporation, and the Group Principal/ CEO as Chief Accounting Officer of HCUC.

14. Assurance of Going Concern

SW reminded the meeting that the FE/HE Statement of recommended practice required the Corporation to carry out a formal assessment of going concern. NS highlighted that it would be important to demonstrate that the Corporation had undertaken due diligence around their consideration of the going concern of the College now that the FE sector had moved forward to being bound by a new Insolvency Regime. Members noted that the governing body were required to make their own assessment of their institution's ability to continue as a going concern so that they were certain of the validity of the 'going concern' assumption when preparing the financial statements. In making this assessment, an institution's governing body were required to take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts were approved. An institution must disclose any material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern. SW assured the meeting that HCUC Corporation had carried out a formal assessment of the going concern in preparation of signing the financial statements. This had included an assessment of the following factors:

- The financial position and reserves as at 31 July 2019
- Cash and investment balances and cash flow forecasts for the next 12 months
- The 2019/2020 financial budget as approved by the corporation
- The level of student recruitment in 2019/20
- Known liabilities and commitments in the next 12 months

The meeting agreed that the Governing Body should be assured that the College had adequate resources to continue in operational existence for the near future. For this reason, HCUC should continue to adopt the going concern basis in preparing the financial statements.

The assurance around Going Concern was NOTED and APPROVED; the Resources Committee would recommend it to the Corporation for approval (10/12/19) alongside the HCUC Financial Statements 2018/19.

15. Regularity Self-Assessment Questionnaire

The meeting considered the detailed Self-Assessment Questionnaire 2018/19. This was completed by the College Management Team for the assurance of the External Auditors on all Regularity Issues. As previously noted BDO had provided a clean opinion on the Regularity Audit for HCUC during 2018/19. The meeting agreed that this document provided a useful summary for the Governors. Governors sought confirmation on whether the College was required to submit this document separately to the OfS. It was confirmed that if they needed it the OfS could access this information via the ESFA as the regulator of FE Colleges.

The Regularity Audit Questionnaire was NOTED and APPROVED; the Audit Committee would recommend it to the Corporation for approval (10/12/19).

16. Any Fraud/ Corruption issues 2019/20.

It was noted that there were no known attempted fraud or corruption issues to report year-to-date 2019/20.

The report was NOTED

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17. Any Other Business

There was no other business. The joint meeting of the Audit Committee and the Resources Committee closed at 11.15am.

Signed *Nasim Khan (Chair)*

Date.....

