

MINUTES

Directorate: Governance

Minutes of: Audit Committee

Date: 28 November 2018 **Time:** 09.30

Venue: Executive Meeting Room, Uxbridge Campus

Present:

Mike Cox (MC)	Governor (Chair)
Nasim Khan (NK)	Governor
<i><u>Present for items 16, 17 and 18 only</u></i>	
Sally Westwood	Governor (<i>Member of HCUC Resources Committee</i>)

Apologies:

Ketan Sheth	Governor
Tracey Critchley (TC)	Governor

In attendance:

Pat Carvalho (PC)	Principal and Deputy CEO
Jayesh Patel (JP)	Head of Finance
Tracy Reeve (TR)	Clerk to the Corporation
Nick Simkins (NS)	Moore Stephens LLP (<i>external auditors HCUC</i>)
Sara Sands (SS)	Group Director Finance & Resource Planning
Laraine Smith (LS)	Group Principal & CEO
<i><u>Present for item 9 only</u></i>	
Andy Miller (AM)	Exec Director Corporate Services
<i><u>Present for items 16, 17 and 18 only</u></i>	
Lorna Raynes (LR)	RSM Risk Assurance Services LLP (<i>funding auditors</i>)
Kath Rangeley (KR)	Director of Funding & Information Services

Observers:

Dylan McTaggart	Vice Principal Harrow College
Shane Woodhatch	Group Director Finance & Resource Planning Elect

1. Chair's Agenda Item

There was no Chair's agenda item.

2. Apologies for absence

There were no apologies.

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 20 September 2018

The minutes were approved and signed by the Chair.

6. Matters arising from the minutes of the meeting held on 20 September 2018 not already on agenda

There were no matters arising that were not already covered by the agenda.

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ITEMS FOR APPROVAL

7. To receive, re-consider and approve the annual report of the HCUC Audit Committee to the Corporation for 2017/18.

The Clerk introduced the final Audit Committee Report 2017/18 from HCUC. TR confirmed that this was as approved in draft format at the September 2018 meeting and the requisite amendments suggested at the previous meeting had been actioned.

The Annual Report of the HCUC Audit Committee 2017/18 were APPROVED for submission to the HCUC Corporation.

- Performance Indicators (PIs) 2017/18 for College audit providers
 - **Internal Auditors, (various)**

Members considered the PIs relating to the internal audits conducted by various specialist firms during 2017/18. Performance of these auditors against the PIs had now been assessed by the College Management but there had been no self-assessment undertaken by the various specialist contractors as this was thought to be an unwieldy process. The meeting considered the College assessment of internal audit provision against the KPIs.

- **External Auditors, Moore Stephens**

The meeting considered the PIs relating to Moore Stephen's performance during the audit of the Financial Statements 2017/18, (same format as used in prior year). Both the College assessment and the external auditors' self-assessment had resulted in a wholly positive assessment. Moore Stephens had been very flexible when the College had requested a delay to the planned audit timetable due to HCUC staff absence.

The assessments against the agreed PIs for the Internal Audit providers and for the External Auditors 2017/18 were both APPROVED as presented. These would be submitted to the ESFA as an appendix to the Annual Audit Committee Report.

SS/ LS

8. Annual Report on Risk Management 2017/18

The Audit Committee considered this Annual Risk Management Report, which had been presented in draft format, considered in detail and approved in September 2018. There had been no change to the report since last presented to the Audit Committee. SS confirmed that the membership of the Risk Management Group had been the HCUC Senior Leadership Team (SMT) however; the Risk Management Strategy and its implementation were set and reviewed by the Governing Body. The Audit Committee had now given assurance for 2017/18 that the controls upon which the organisation relied, to manage risk management and corporate governance, were suitably designed, consistently applied and effective. The meeting noted that as part of the external audit of the financial statements for 2017/18, Moore Stephens had now confirmed that the College was in full compliance with Corporate Governance requirements. The meeting noted the opinion of the Risk Management Group (RMG); they were satisfied that there was a formal ongoing process for identifying, evaluating and managing the College's significant and contingency risks.

The Risk Management Report 2017/18 was APPROVED for submission to the HCUC Corporation in December 2018.

SS/ LS

ITEMS FOR INFORMATION

9. Human Resources (HR) department 2018/19 action plan for audit visit 2019/20

The Exec Director Corporate Services (AM) joined the meeting to provide assurance for Audit Committee members that an action plan was in place to ensure that the HR Department would be ready for an internal audit in early 2019/20. Audit Committee members had specifically requested this when they were agreeing the HCUC internal audit strategy at the previous meeting (September 2018). AM informed the meeting that since 1 September 2018 a new structure for the cross-college HR Department had been implemented. There had also been work on how to use the Midland



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iTrent system to best effect and iron out any current issues; the HR Director would be meeting colleagues from another College who were already successfully using this system. AM confirmed that the College needed to see how the data could be manipulated to make better use of the system. AM informed the meeting that he had considerable experience of audit work and would be putting together an Audit Checklist with the HR Director at the start of the January 2019 term. He would then undertake a mock audit at the start of the summer term and would report to the SLT and the HR Director to produce an action plan. The Internal Audit Plan 2019/20 would include an internal audit review of HR in the autumn term 2019.

The action plan for the Human Resources department 2018/19 was NOTED; the mock audit report would be presented to Audit Committee when completed (June 2019 meeting).

AM/ SW

10. Internal Audit Strategy: update

SS updated the Audit Committee on the agreed HCUC internal audit strategy and the annual internal audit plan for 2018/19. The meeting was reminded that the HCUC internal audit strategy had been approved by Governors in September 2018; it was confirmed that no internal audit activity had yet taken place. A budget of £38,000 has been included 2018/19 to allow for a number of ad hoc audits to take place during the year should they be required, in addition to the standard annual key financial controls and funding assurance audits. Audit Committee noted that an auditor had not yet been commissioned to undertake the Key Financial Controls audit (usually scheduled for January / February) however the College had requested a quote from one of the audit firms who tendered for the external audit last year, and who came a close second. The proposed timetable for this audit was early 2019. ***The Chair suggested that after this year it would be prudent for the College to tender for a firm to provide the KFC audit for a three- year period; this would make it a more attractive proposition for audit companies.*** The meeting noted a detailed summary of the agreed areas of review for 2018/19 and plan for 2019/20.

SW

The update was NOTED

11. Review of previous audit recommendations

The Head of Finance (JP) presented a report on progress against the recent audit recommendations. The meeting noted the remaining recommendations from the Funding Audit of Harrow (HC) and Uxbridge Colleges (UC) in autumn 2017. Eight of these had been due for completion by July 2018 but the workload in MIS to implement the new cross-college systems had delayed confirmation of their clearance. The Director of Funding and Information (KR) joined the Audit Committee meeting and gave Audit Committee members an update on current progress. The meeting also noted progress against the nine recommendations from the Safeguarding audit undertaken in March 2018; five of which were now completed. DMcT questioned the assertion that the Impero system was not yet functioning at Harrow College (HC); SS affirmed that this was true in relation to the Prevent agenda. Training and configuration issues were hindering this control system being fully implemented at HC but an action plan was in place to remedy this. The 9 recommendations from the Health & Safety Audit (July 2018) were noted; five of these were now completed and the others were on target for completion within the academic year.

The report was NOTED.

12. To receive the Risk Register update

Governors considered the Risk Register that detailed the risks mapped to the Strategic Aims and Corporate Goals of the College; the meeting was reminded that the College was now working with one combined risk register across HCUC. There had been no change to the Risk Register since the last Audit Committee review. The meeting discussed the following key 'red' rated risks in more detail and the mitigating actions that had been put into place:

- 1.08 *Insufficiently qualified and equipped staff to support the delivery of study programmes and quality outcomes for learners.* (Risk score at 12 'red').

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- 1.09 Failure to recruit sufficient staff, qualified at the appropriate level. (Risk score raised to 12 'red' in September 2018).
- 1.13 College SAR and/ or Ofsted rating falls below Outstanding. (Risk score raised from 10 'amber' to 12 'red' in September 2018).
- 3.04 Inadequate budgetary controls (Risk score raised from 5 'green' to 12 'red'). This reflected the staff changes happening within the Finance Team and the need for ongoing robust procedures.
- 3.11 Underachievement of funding targets (Risk score still at 15 'red').
- 3.14 Management Information – finance, funding, HR (Risk score at 12 'red'). Governors were reminded that consistent procedures across HCUC were now in place. However, new composite HCUC systems were still relatively new (e.g. HR system) so the risk was deemed as high.
- 3.20 WBL non-levy 16-18 and 19+ apprentices target not met. (Risk score still at 15 'red'). Current WBL delivery against the ESFA allocation was being closely monitored.

The Risk Register was NOTED and RECEIVED.

13. To receive a report on any additional work required by auditors during 2018/19.

It was noted that no additional audit work had been commissioned by the College during 2018/19 to date.

The report was NOTED

14. To confirm and agree the dates and times for the meetings in 2018/19

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

- Wednesday 6 March 2019 at 9.30am
- Wednesday 26 June 2019 at 9.30am

15. Any Other business

There was no other business. The Audit Committee meeting closed at 10.10am and the joint meeting of HCUC Audit Committee and HCUC Resources committee commenced at 10.15am

JOINT MEETING OF HCUC AUDIT AND RESOURCES COMMITTEE

ITEMS FOR DECISION

16. To RECEIVE the Report & Financial Statements and associated reports for the period ended 31 July 2018 for Uxbridge College

i) Financial Statements

The GDFRP (GDFRP) introduced the draft reports and financial statements for the period ended 31 July 2018 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 £547,000 (compared with £892,000 in 2016/17).
- Once the impact of the FRS17 pension gain was applied this resulted in a surplus 'Total Comprehensive Income' of £23.210m. Net assets of £15.226m were transferred from Harrow College on merger to HCUC.
- The balance on the income and expenditure account (excluding pension reserve) now stood at £51.583m (compared with a figure of £43.791m in 2016/17).
- The College had accumulated reserves of £60.202m, net assets of £90.632m and cash

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balances of £17.698m.

- The LGPS pension liability was noted as £13.900m compared with £19.602m last year (the prior year figure was for Harrow and Uxbridge as separate colleges). Governors were reminded that the pension liability (FRS17) was not included by the ESFA when assessing the financial health of colleges.

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 2017/18 the College delivered activity that produced £40.027m in Agency main allocation funding (compared with £43.119m in 2016/17). The total Agency funding was at 81.6% of income in 2017/18 (83.05% in prior year). Total income had decreased from £51.733m in 2016/17 to £49.031m in 2017/18; UC income had fallen by 2% on prior year due to a lower Adult Education Budget; and HC income had fallen by 10% due to some courses having been removed. The meeting discussed the curriculum planning process for 2019/20 and questioned when this would start. The Principal (LS) informed the meeting that when the final ILR was known at the start of December the SLT would start to consider the portfolio of courses for 2019/20; Harrow College would be considered first as there appeared to be a need for more change than in the UC portfolio. LS reiterated the need to construct enrolment targets across the College based on reality. Expenditure had decreased from £51.035m (across the two colleges pre-merger) to £48.484m; of this £33.731m related to staff costs compared with £34.719m in the prior year. SS highlighted that all central staff costs – corporate services and SLT – were included against the UC staff cost. SS assured the meeting that eventually the costs would be allocated more accurately across HC, UC and West Met Skills. Governors sought confirmation that financial data would continue to be presented separately for each of the two colleges as well as a group position; SS confirmed that this would always be required to allow management and Governors to see that each College was operating efficiently. The meeting noted the detail of the fixed asset additions during the year, which amounted to £7.73m; of which £5.309m was on land and buildings and £2.421m was on equipment. SS highlighted a historical accounting issue with the HC revaluation reserve; this had been corrected for 2016/17 and tracked back to 2013/14 to see whether the trial balance had been closed off. The meeting noted the strong financial performance indicators for the 2017/18 year which included a very strong operating cash inflow (£5.5m) as well as the following:

- Operating surplus of 1.14% of income (UC was 2.8% in 2016/17).
- Current ratio (assets over liabilities) of 1.9 (UC was 2.7 in 2016/17).
- EBITDA (education specific) - earnings before interest, tax, depreciation and amortisation - at 12.12% which was down on the prior year figure of 16.51% at UC.
- 69% staff costs as a percentage of income including agency staff (66.2% in prior year). This figure reduced to 66.54% when the pension cost was excluded.

The notes to the accounts were considered in detail by the meeting. The Chair questioned the use of the word 'merger' within the financial statements as from a technical accounting perspective it had been an acquisition. **SS highlighted the use of the word 'combination' in the report but agreed she would consider whether the word 'merger' should be changed in any of the narrative.**

The meeting considered and noted the Statement of Corporate Governance and Internal Control and the assessment of the College as a 'going concern'. SS 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 Chair sought, and was given, confirmation that the external auditors had done their own 'controls testing' to validate the audit process. The meeting commended the 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. The meeting commended that HCUC had made a surplus in the first year post-merger despite merger costs of approximately £800,000 in year and £1.8m FRS adjustments in relation to

SS

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the LGPS pension scheme. 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 highlighted that he had found several typographical errors in the Financial Statements; he would e-mail the detail of these to the GDFRP for correction.**

ii) July 2018 Management Accounts

The restated Management Accounts for 31 July 2018 and the adjustments arising from the preparation and audit of the Financial Statements were noted by the meeting. Adjustments totaling £329,000 had been made against the income and expenditure. As previously noted by the meeting the revised operating surplus was £596,000 against a forecast deficit of £445,000.

MCx/ SS

The 2017/18 Financial Statements and July 2018 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, Moore Stephens, following their audit of the HCUC Financial Statements for 2017/18, for APPROVAL & recommendation to Corporation.

SS/
AMcL

Nick Simkins (NS) of Moore Stephens presented the Audit Findings Report to the Governors, which acknowledged the strong financial outturn and cash position for Uxbridge College. NS highlighted the difficult circumstances that had arisen this year due to staff absence within the Finance Team and commended the new Head of Finance (JP) for his considerable efforts and positive contribution in his work with the external audit team. SS affirmed this vote of thanks for JP who had been somewhat 'thrown in at the deep end' and had done a great job in the preparation work for the Financial Statements audit. The meeting was pleased to note the clean unqualified opinion.

NS informed the meeting that once again, after the initial delay to the process starting (due to HCUC finance staff absence), the audit had gone very smoothly from their perspective; the flow of information from management had been accurate and timely. SS and JP concurred that the process had gone well from the College management perspective. The meeting considered the Management Report 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 went on to consider the significant audit risks that had been identified by Moore Stephens and detailed in their audit planning letter. The risks were noted as follows: revenue recognition; management override of control; valuation of LGPS; and the merger between Harrow College and Uxbridge College. Governors noted that Moore Stephens conclusion against the first three of these risks was clean and that there were no issues identified which needed to be reported to the Audit Committee. The risk associated with the merger – in relation to the accounting treatment and disclosures made in the accounts – was still to be finalised. However, the meeting was assured that Moore Stephens did not 'expect any modifications to the audit report on the financial statements July 2018'. The meeting also noted the assurances given around the risk of fraud and independence. NS highlighted that during the audit there had been no weakness of controls identified but there were two recommendations for improvement; one grade B ('important issue, requires attention') and one grade 'C' ('less important/ housekeeping'). The grade B recommendation was in relation to the need for a comprehensive Fixed Asset Register; management had accepted this recommendation and would complete the verification exercise during 2018/19. The lower priority recommendation was in relation to 'document retention on Midland iTrent' (the HR system recently implemented across HCUC); this had also been accepted by management and would be implemented by the HR Director. Audit Committee members commended the small number of recommendations as the 2017/18 had been a very complicated year for the Finance Team having to bring the two colleges finance systems together for the first time. The meeting also noted that there were no unadjusted misstatements to report. There had been a presentational adjustment of £15.2m in the Total Comprehensive Income as the net assets of Harrow College on merger should have been treated as 'combination that is in substance a gift'.

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The meeting discussed the potential impact of the proposed increase to the Teachers' Pension Scheme (TPS) employer contribution rates; planned to rise from 16.48% to 23.6% from September 2019. SS confirmed that it was not yet known whether the DfE would provide any support for Colleges in facing this increased expenditure. NS believed that this increased TPS burden could be the final financial straw for a lot of Colleges and independent schools.

NS thanked the College Finance Team for their support and cooperation throughout the annual audit which had been recognised in the Management Letter; the flow of information had been good and a number of technical matters had been resolved amicably. NS confirmed that the issue of 'symmetry' around the debtor system at HC had now been resolved. It was noted that the low number of recommendations highlighted an ongoing positive control environment at HCUC. The Audit Committee members commended the College finance team and Moore Stephens for another positive result. NS highlighted his thanks to SS as she was leaving HCUC in December 2018; he had worked with her for many years and she had always done a sterling job, she would be greatly missed. All Audit Committee members and attendees concurred with this statement.

The Audit Report and Management Letter of the External Auditors, Moore Stephens, for Uxbridge College 2017/18 was APPROVED and would be taken to the HCUC Corporation for approval (11th December 2018).

iv) Letter of Representation

The meeting noted the draft Letter of Representation; this had a standard format for all FE Colleges, which was required by the Joint Audit Code of Practice; it would not include any narrative specific to HCUC.

SS/ MCx

The Letter of Representation for HCUC would be taken for approval to the HCUC Corporation (11/12/18) before being signed by the Corporation Chair on behalf of the Corporation, and the Group Principal/ CEO as Chief Accounting Officer of HCUC.

v) Funding Assurance Report 2017/18 completed by RSM

The meeting welcomed the HCUC Director of Funding and Information services (KR) to the meeting along with the Funding Auditor (LR) from RSM Risk Assurance Services LLP. The meeting considered the report from RSM, commissioned by the Education and Skills Funding Agency (ESFA) within the annual national sample of Final Funding Returns. The RSM review had examined the College's final ILR for 2017/18, which had consisted of a 'stitched file'; Harrow College and Uxbridge College had run two different Learner Number Systems and different procedures during 2017/18. The funding streams considered had been;

SS/ MCx

- Carry-in apprenticeships and adult education budget provision
- Apprenticeships (from 1 May 2017)
- Advanced Learner Loans
- 16 to 19 provision

The meeting noted the assurance review approach taken by RSM and the errors found during the funding audit. The associated risks and associated funding adjustments were clearly highlighted by LR and the Audit Committee discussed the Action Plan and recommendations with KR. Members were pleased to note that many of the recommendations had already been completed, whilst others had completion dates for December 2018 or early in 2019. LR assured the meeting that all of the errors found were commonly found across FE college funding audits. However, KR confirmed that there was still work to be done to get the College back to the very high level of compliance with funding requirements that had existed pre-merger. Audit Committee was assured that due to the considerable work undertaken during 2017/18 on aligning the two college systems, HCUC was compliant with funding rules for 2018/19. The meeting discussed the disappointing number of recommendations and KR assured Governors that the level of materiality used by RSM was very low; they also included all errors found even if cleared during discussions. KR informed the meeting that she had challenged a number of the recommendations with the ESFA Funding

specialist but she had to agree that the report was factually accurate.

The Funding Assurance Report of RSM, for HCUC 2017/18 was RECEIVED and APPROVED and would be taken to the HCUC Corporation on 11th December 2018.

17. Assurance of Going Concern

SS informed 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 as the FE sector moved forward into a new Insolvency Regime. Members noted that the governing body must make their own assessment of their institution's ability to continue as a going concern to assure themselves of the validity of the 'going concern' assumption when preparing their accounts. In making this assessment, an institution's governing body should 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. SS 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:

LS/ SS

- The financial position and reserves as at 31 July 2018
- Cash and investment balances and cash flow forecasts for the next 12 months
- The 2018/2019 financial budget as approved by the corporation
- The level of student recruitment in 2018/19
- 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 (11/12/18) alongside the HCUC Financial Statements 2017/18.

18. Regularity Self-Assessment Questionnaire

The meeting considered the detailed Self-Assessment Questionnaire 2017/18 which had been completed by the College Management Team for the assurance of the External Auditors around Regularity Issues. As previously noted Moore Stephens had provided a clean opinion on the Regularity Audit for HCUC during 2017/18. The meeting agreed that this document provided a useful summary for the Governors.

SS/
AMcL

The Regularity Audit Questionnaire was NOTED and APPROVED; the Audit Committee would recommend it to the Corporation for approval (11/12/18).

19. Any Fraud/ Corruption issues 2018/19.

It was noted that there were no known attempted fraud or corruption issues to report year-to-date 2018/19.

The report was NOTED

SS/ MCx

20. Any Other Business

The meeting formally recorded a vote of thanks to Sara Sands (GDFRP) as she would be leaving HCUC on 7th December 2018. Her contribution to Uxbridge College for more than 20 years and as GDFRP at the newly merged HCUC had been enormous; she would be sorely missed and had been a joy to work with.

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Signed *Mike Cox (Chair)*

Date.....

