

# MINUTES

**Directorate: Governance**

**Minutes of: Audit Committee**

**Date: 29 November 2017 Time: 09.30**

**Venue: Executive Meeting Room, Uxbridge Campus**

**Present:** Mike Cox (MC) Governor (Chair)  
 Nasim Khan (NK) Governor  
 Ketan Sheth (KS) Governor  
 Tracey Critchley (TC) Governor

Present for items 16, 17 and 18 only

Alasdair MacLeod Governor (*Chair of HCUC Resources Committee*)  
 Steve Owen Governor (*Member of HCUC Resources Committee*)

**In attendance:** Pat Carvalho (PC) Principal and Deputy CEO  
 Vikash Patel (VP) Head of Finance  
 Tracy Reeve (TR) Clerk to the Corporation  
 Nick Simkins (NS) Moore Stephens LLP (*external auditors Uxbridge College*)  
 Sara Sands (SS) Group Director Finance & Resource Planning  
 Laraine Smith (LS) Group Principal & CEO

Present for items 16, 17 and 18 only

George Churcher (GC) KPMG LLP (*funding auditors HCUC*)  
 Alex Hanson (AH) KPMG LLP (*external auditors Harrow College*)  
 Ben Stapleton (BS) KPMG LLP (*external auditors Harrow College*)  
 Laura Kneebone (LK) KPMG LLP (*external auditors Harrow College*)  
 Kath Rangeley (KR) Director of Funding & Information Services

## 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 2017

The minutes were approved and signed by the Chair.

## 6. Matters arising from the minutes of the meeting held on 20 September 2017 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. Internal Audit Strategy

The meeting reconsidered the proposal for the HCUC internal audit strategy 2017/18; this had been considered in detail at the previous Audit Committee meeting (September 2017). It was noted that TIAA had not reviewed this strategy as suggested due to a potential conflict of interest; the meeting agreed that the Audit Committee members were in the best position to approve the strategy and had sufficient information to do so without external verification. The meeting was assured that this strategy was based on key areas of concern from review of both colleges risk registers for 2017/18 and in discussion with College senior managers. Areas planned for inclusion in the internal audit plan 2017/18 were noted as: Key Financial Controls (including the new payroll system); Funding compliance (including compliance with requirements of the study programme; Safeguarding (last completed in January 2016); and Health and Safety (last completed June 2016). VFRP (SS) confirmed that £55,220 had been included in the HCUC College budget for 2017/18 to allow for the internal audit work and any additional ad-hoc audits. Governors were reminded that there may be some additional internal audit work that was required as part of the post-merger process. The outline proposals for 2018/19 were noted as: Key Financial Controls; funding compliance; IT systems maintenance; Learning Support; and Apprenticeships funding (levy and non-levy).

After thorough discussion of this proposal to use call-off specialists for the provision of internal audit services the meeting agreed to proceed on this basis with TIAA completing the Key Financial controls audit (as they had done in both Colleges during 2016/17). The Chair asserted the need to aim for 'substantial' assurance in this key audit. The meeting noted that the College had recently received a 'support and challenge' visit from Ofsted after a safeguarding related complaint. The CEO assured the meeting that this very thorough review visit had resulted in a clean bill of health which had been confirmed in a very positive letter from the Ofsted inspectors subsequent to the visit. It was noted that the letter contained 4 action points which had been accepted by management and had already been implemented. Audit Committee members accepted this assurance around safeguarding at Uxbridge but took the opportunity to challenge on this same key aspect at Harrow College. The Deputy CEO/ Principal Harrow (PC) assured the meeting that the buildings at Harrow were well designed and had been flagged as a 'safe campus' by community police representatives. Governors commended the clear 'safeguarding' display board in the Harrow Reception. It was noted that the proposed internal audit of safeguarding across HCUC would be undertaken by external specialists who would design the structure of the review. The meeting also noted that the internal audit of Health and Safety (H&S) would be undertaken using the AoC H&S audit template as in previous years at Uxbridge College.

***The HCUC Internal Audit Strategy 2017/18 was APPROVED as presented.***

### 8. Tender for External Audit Services

The meeting considered a paper which outlined a proposal for the external audit tender process to be carried out in 2017/18. It was proposed that HCUC appoint an external audit firm, for the period 2017/18 to 2019/20 (with the first audit being the 2017/18 financial statements) with a contract start date of 1<sup>st</sup> August 2018. The meeting noted that the contracts for the external auditors for both Harrow and Uxbridge come to an end with the audit carried out on the 2016/17 financial statements; both auditors had been in position for a period of 3 years – KPMG at Harrow and Moore Stephens at Uxbridge.

SS informed the meeting that as HCUC had retained the services of Tenet Education for procurement services, Tenet would administer the tender process. The meeting considered the detailed timetable for the tender process which was based on the Crown Commercial Services Framework. The timetable was for the tender opportunity to be published to framework suppliers on 1<sup>st</sup> February 2018 with a closing date for receipt of tenders on 5<sup>th</sup> March 2018. Presentations

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from the shortlisted companies to an evaluation panel would take place during the first 2 weeks of April 2018. The proposed membership of the tender evaluation panel was: Chair of Audit Committee; Clerk to the Governors; Additional Resources / Audit Governor; Group Director Finance and Resource Planning; Head of Finance; and a Tenet Representative. The formal contract award letter would be issued on 30<sup>th</sup> April (after a voluntary standstill period); the meeting commended this forward planning and the timeframe which enabled a firm to be appointed well within the necessary timeframe before preparations for the 2017/18 external audit were due.

***The HCUC External Audit tender process was APPROVED as presented.***

## 9. To receive, re-consider and approve the annual reports of the Audit Committees (Harrow College and Uxbridge College) to the Corporation for 2016/17.

The Clerk introduced the final Audit Committee Reports 2016/17 from Harrow College and Uxbridge College and confirmed that these were as approved in draft format at the September 2017 meeting. Confirmation had been received on the number of internal audit recommendations at Harrow College, (as sought in September 2017 Audit Committee minutes).

***The Annual Reports of the Harrow College and Uxbridge College Audit Committees 2016/17 were APPROVED for submission to the HCUC Corporation.***

- Performance Indicators (PIs) 2016/17 for College audit providers

- **Internal Auditors, (various)**

Members considered the PIs relating to the internal audits conducted by various specialist firms during 2016/17 (at Uxbridge College) and by TIAA (at Harrow College). 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 positive feedback from Uxbridge College (UC) staff on the specialist auditors was noted. The self-assessment from TIAA as Harrow College internal auditors was noted and considered.

- **External Auditors, Moore Stephens**

The meeting considered the PIs relating to Moore Stephen's and KPMG's performance during the audit of the Financial Statements 2016/17, (same format as used in prior years). Both the College assessment and the external auditors' self-assessment had resulted in a wholly positive assessment. The meeting sought confirmation on whether the two 'no' answers to question 8 'Were there any material errors notified to the College during the course of the audit?' were correct. SS confirmed that there had been no material errors identified in either the Harrow or Uxbridge financial statements 2016/17. The meeting highlighted a date error on the last page of the external audit KPI report; it should read 'Presented to Audit Committee, 29<sup>th</sup> November 2017' (not September). SS confirmed that this date would be corrected before submission to the Corporation and the ESFA.

***The assessments against the agreed PIs for the Internal Audit providers and for the External Auditors 2016/17 for Harrow College and Uxbridge College were both APPROVED as presented. These would be submitted to the ESFA as an appendix to the Annual Audit Committee Reports.***

SS

## 10. Annual Report on Risk Management 2016/17

- a. Risk Management 2016/17

The Audit Committee considered this Annual Risk Management Report which had been presented in draft format in September 2017. SS confirmed that there had been no change to the report since last presented to the Audit Committee.

- **Harrow College:** The Audit Committee noted this report which had previously been presented to, and approved by, the Harrow College (HC) Corporation at their last meeting in July 2017. The updated Risk Register for HC 2016/17 now included the period May-July 2017. The 15 key strategic risks identified for HC were noted by Audit Committee members. Overall the risk

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scores had remained the same. Where risks had been reported with an increased severity additional mitigating actions had been put into place (e.g., management of non-pay budgets, additional ESOL programmes, subcontracting AEB, almost daily management of Care First and promoting College ranking to maintain and, hopefully, improve recruitment). Limited actions could be taken for Risk 2 - Increasing income streams with regard to apprenticeships – as this was adversely affected by the lack of a business development officer in the area leading to fewer apprenticeship sign-ups. The meeting noted that all identified risks would be taken forward for 2017/18 and where appropriate would remain a risk to note for Harrow College or become a risk under HCUC corporate services e.g. Finance, West Met Skills (Employer Services).

- Uxbridge College:** SS presented the annual report of the UC Risk Management Group for the period 1 August 2016 to 31 July 2017. The meeting noted Appendix 1 to the report which detailed the risks with scores of 12 and above (Significant) at the start of the year, against the end of period score and an explanation. Also included were two risks where the scores increased to significant by the end of the year, again with detailed explanation as to why. Of the six Significant risks at the start of the year, two reduced to a rating of Contingency, two to Housekeeping and two remained the same. The two risks rated Significant at the end of the year were Contingency risks at the start of the year.

The meeting was reminded that there had been no formal Internal Audit on Risk Management and Corporate Governance undertaken during 2016/17 as previous audits in this area had given the College substantial assurance. Governors noted that instead the work of specialist auditors during the year had been concentrated on areas of high priority detailed in the Risk Register. With substantial assurance given on each of the audits, it has been confirmed by the audit committee during the year, that this type of work has proved more useful in not only gaining detailed insight but also in receiving considered assurance on each area of work. Each risk was assigned to a Committee, with relevant Contingency and Significant risks reviewed at each Governing Body sub-committee meeting as standard agenda items, with an overview remaining with the Audit Committee. At each Governing Body meeting, officers had presented Directorate reports, referencing the major risks.

SS confirmed that the Risk Register was working well as a live document showing 'RAG' rated risks aligned to the Corporate Goals and was fully embedded at all level through the College. Each school and service area reviewed their risk register as part of their development plan. The review of the College register continued to be a standing item on the agenda for each of the schools and service areas reviewed at the Senior Management Team meetings, and individual risks were monitored regularly in the context of updates to and reviews of the operational plan and corporate goals.

It was noted that a separate merger implementation risk register was devised and monitored by the Merger Joint Steering Group in relation to the merger with Harrow College which took place on 1<sup>st</sup> August 2017. The meeting did not consider this Pre-Merger Risk Register, as the merger had now taken place. Governors were assured that a post merger implementation plan and associated risk register would be reviewed during 2017/18.

SS confirmed that the membership of the Risk Management Group had been the UC Senior Management Team (SMT) however; the Risk Management Strategy and its implementation were set and reviewed by the Governing Body. The Audit Committee had given assurance for 2016/17 that the controls upon which the organisation relied, to manage risk management and corporate governance, were suitably designed, consistently applied and effective. The meeting was also reminded that as a result of the external audit of the financial statements for 2016/17, Moore Stephens had confirmed that the College was in full compliance with Corporate Governance requirements. The meeting noted the opinion of the Risk Management Group (RMG) for UC

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2016/17: the RMG were satisfied that there was a formal ongoing process for identifying, evaluating and managing the College's significant and contingency risks.

***The Risk Management Reports 2016/17 for Harrow College and Uxbridge College were APPROVED for submission to the HCUC Corporation in December 2017.***

## ITEMS FOR INFORMATION

### 11. Review of previous Uxbridge College audit recommendations

The Head of Finance (VP) presented a report on progress against the existing three Internal Audit recommendations carried forward from Uxbridge College. These were in relation to, key financial controls (1), and IT Services (2). The meeting noted that the work to transfer the Fixed Asset Register to curriculum departments had commenced in summer 2017 and was being taken forward outside of term-time. The meeting was also pleased to note that the remaining 2 recommendations in relation to IT were still ongoing but progress was being made; the meeting had a detailed discussion around the options that were being considered for a replacement system for EBS across the whole of the HCUC group. The meeting sought clarification on the quality of IT hardware across the group and noted that there had been more recent investment at Uxbridge College compared with Harrow College. As a result, there were more new high specification PCs at the Uxbridge campus with a newer infrastructure to support them; however, there was still an ongoing issue around some slow response times. Audit Committee members sought, and were given, assurance that this work to integrate systems was ongoing; ***it was agreed that the timescale on the report should be changed to 'ongoing' to reflect a more accurate picture.***

SS

***The report was NOTED.***

### 12. To receive the Risk Register update

The GDFRP reported on the Risk Register which detailed the risks mapped to the Strategic Aims of the College. The meeting noted the two separate College Risk Registers which were both now in the format previously used by Uxbridge College: these had the risks aligned to the Corporate Goals of each college. SS confirmed that both of these Risk Registers would continue to be monitored via the individual sub-Committees as well as by the Audit Committee. The Risk Register aligned to the Post Merger Action Plan (PMAP) was also considered; the risks on this were aligned to the PMAP rather than the corporate goals. The meeting noted that one Risk Register for HCUC would be drafted once the HCUC Strategic Plan was agreed (due to be considered by the Governors in January 2018). The meeting considered the three Risk Registers and noted that they showed significant and contingency risk only. Governors were given assurance that these Risk Registers were reviewed regularly through HCUC Senior Leadership Team (SLT) and Executive team meetings.

The meeting considered the summary report which highlighted the key risks for the Audit Committee members.

#### Harrow College and Uxbridge College Risk Registers

The meeting noted that the significant risks (rated 12 and above) in both Colleges all related to difficulties with staff recruitment and achievement of funding:

- Insufficiently qualified and equipped staff to support the delivery of study programmes and quality outcomes for learners
  - Problem areas noted as: Harrow, Health & Social Care and LLDD; Uxbridge, Business, Health and Social Care, Engineering (ME), Learning Support
- Failure to recruit 16-18 enrolment and AEB income targets.

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- Recruitment to date was noted as:
  - Harrow
    - 16-18 learner numbers actual : target 1838:1961
    - 19+ funding target £4,334,000 : shortfall anticipated
  - Uxbridge
    - 16-18 learner numbers actual: target 4131:4169
    - 19+ funding target £2,842,000: shortfall anticipated
- WBL 16-18 and 19+ apprentices target not met including in-year variation
  - May – December shortfalls expected, not to be confirmed until December 2017 ILR
- Underachievement of funding targets – as above
- An additional risk in Harrow related to apprentices: Apprenticeship (WBL) performance falls below Minimum Standards (MS) impacting funding contract.
- An additional 2 risks were significant at Uxbridge:
  - Performance measures in English and Maths, including progress measures, fall below national averages
  - International income fails to meet financial targets due to unforeseen events.

Governors sought additional detail on mitigating action would be taken to lessen any negative impact of the under-enrolment for 2017/18. SS informed the meeting that a detailed report would be taken to the Resources Committee which outlined the under recruitment against 19+, International and HE, and the action plan which had subsequently been put in place. The meeting was assured that the management of the under-recruitment was considered on a two-weekly basis but the decision had been taken by the SLT to avoid sub-contracting during the year as it was too high risk. The action plan would include additional ESOL courses and also a very tight line on expenditure; there was a hold on any staff recruitment while a thorough review of the course Masterfile was being undertaken for the whole HCUC organisation.

## Post Merger Action Plan (PMAP)

The meeting noted the significant risks associated with the PMAP Risk Register. These were noted as being in relation to the following: Pay assimilation of Harrow staff onto HCUC pay-scales; Review of the staff profile to align with HCUC requirements; Determine and implement most appropriate MIS systems for HCUC; Determine an agreed approach to the management and achievement of quality processes and outcomes at HCUC (with a view to achieving Ofsted 'outstanding' status within 3 years of merger; and, Ensure the successful launch of HCUCs West Met Skills in 2017/18 (the Employer Services Unit facing wing of HCUC).

***The Risk Registers were RECEIVED.***

## **13. To receive a report on any additional work required by auditors and any fraud/ corruption issues 2017/18.**

- Additional Audit work: It was noted that no additional audit work had been commissioned by the College during 2017/18 to date.
- Attempted fraud/ corruption: It was noted that there were no known fraud or corruption issues to report year-to-date.

***The report was NOTED***

## **14. To confirm and agree the dates and times for the meetings in 2017/18**

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

Wednesday 28 February 2018 at 9.30am

Wednesday 27 June 2018 at time TBC (provisionally 9.30am)

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## 15. Any Other business

There was no other business. The Audit Committee meeting closed at 11.10am and the joint meeting of HCUC Audit Committee and HCUC Resources committee commenced at 11.15am

## ITEMS FOR DECISION

### 16. To RECEIVE the Report & Financial Statements and associated reports for the period ended 31 July 2017 for Uxbridge College

#### i) Financial Statements

The Vice Principal Finance and Corporate Services (VP F&CS) introduced the draft reports and financial statements for the period ended 31 July 2017 and highlighted that the Report and Financial Statements for both Uxbridge College and Harrow College would be approved by the Resources Committee and then recommended to the full HCUC Corporation for approval.

The following key points were highlighted:

- The operating surplus for the year was £892,000 (compared with £491,000 in 2015/16).
- Once the impact of the FRS17 pension gain was applied this resulted in a surplus 'Total Comprehensive Income' of £2.631m (compared with a deficit of £1.89m in the prior year).
- The balance on the income and expenditure account (excluding pension reserve) now stood at £43.791m (compared with a figure of £41.890m in 2015/16).
- The College had accumulated reserves of £36.772m, net assets of £36.992m and cash balances of £12.152m.
- The LGPS pension liability was £11.576m compared with £12.430m last year. Members once again expressed concern that this figure was completely outside the control of the College but the meeting was reminded that the pension liability (FRS17) was not included by the SFA 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 2016/17 the College delivered activity that produced £26,252,000 in Agency main allocation funding (compared with £26,755,000 in 2015/16). The meeting was reminded that the College had not achieved its 16-18 learner numbers target (which increased by 240 FTE due to over-achievement in 2015/16). The 19+ adult single budget was achieved but fell short of the 19+ Work Based Learning (WBL) Target by £976,000 and short against the 16-18 WBL target by £30,000; the meeting was reminded of the issue with a sub-contractor which contributed to this shortfall. The total Agency funding was noted as being at 83.05% of income (84.3% in prior year). Total income had increased from £30.793m in 2015/16 to £32.140m in 2016/17; expenditure was noted as increasing from £30.301m to £31.248m (of this £21.026m related to staff costs compared with £19.722m in the prior year). The meeting noted the detail of the fixed asset additions during the year which amounted to £1.697m; of which £527,000 was on land and buildings and £1.17m was on equipment. The meeting noted the strong financial performance indicators for the 2016/17 year which included a very strong cash-flow as well as the following:

- Operating surplus of 2.8% of income (£892,000)
- 140 cash days in hand (120 in prior year 2015/16)
- Current ratio (assets less liabilities) of 2.7 (2.05 in 2015/16)
- Available reserves at 138% of income
- EBITDA (earnings before interest, tax, depreciation and amortisation) at 16.51% which was up on the prior year figure of 14.53%.
- 66.2% staff costs as a percentage of income including agency staff (64.8% in prior year). This figure reduced to 64.3% when pension cost was excluded (63.5% prior year).

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- Premises costs £70.97 per square metre (£74.35 in 2015/16)

The notes to the accounts were considered in detail by the meeting. **AMcL asked for an amendment to be made to the list of Governors 2016/17 (page 11 and 12); he was also a member of the Remuneration Committee.** **SS** Members sought additional clarity on the increased staff costs and were reminded of the 1% pay increase, pension increases and also noted that there had been an accrual of £90,000 for holiday pay. Governors noted that the increased staff costs for learning support and English and maths were offset by additional income. The Chair sought clarity around the issue of restricted and unrestricted income; it was highlighted in Harrow College financial statements but not in the Uxbridge ones. NS confirmed that where the figure was a 'nil' value it did not need to be stated separately. BS confirmed that KPMG had followed the 'Casterbridge' model of accounting and so used the different terms as Harrow College had some restricted reserves. Note 12 - The Chair sought clarity on why depreciation was 10 years for motor vehicles; this seemed too long. SS confirmed that the College did not own any motor vehicles but this figure related to plant and equipment so was valid. Note 24 – The meeting considered the detailed issues around the pension obligations and the decrease in the FRS17 pension liability was noted. The meeting was assured that the actuarial assumptions had been challenged and verified against sector norms during the audit.

The meeting considered and noted the Statement of Corporate Governance and Internal Control and the assessment of the College as a 'going concern'. It was noted that the other senior members of the SMT at Uxbridge College had contributed to the narrative of the Members Report. 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. It was agreed that the College's financial objective 'To maintain the strong financial profile needed to ensure a secure future', had been fully achieved.

ii) SFA Finance Record

The meeting also noted the SFA Finance Record which would be submitted on behalf of the College; this confirmed a financial health grade of Outstanding for 2016/17.

iii) July 2017 Management Accounts

The restated Management Accounts for 31 July 2017 were also noted by the meeting and the adjustments arising from the preparation and audit of the Financial Statements. It was noted that adjustments totaling £32,000 had been made against the income and expenditure.

**The 2016/17 Financial Statements, SFA Finance Record and July 2017 Management Accounts for the former Uxbridge College were NOTED and RECEIVED, (they would be recommended to the HCUC Corporation for approval by the Resources Committee).**

iv) Audit Report and Management Letter of the External Auditors, Moore Stephens, following their audit of the Uxbridge College Financial Statements for 2016/17, for APPROVAL & recommendation to Corporation.

Moore Stephens presented the Management Report which acknowledged the very strong financial outturn and cash position for Uxbridge College. The following areas were highlighted:

- Clean unqualified opinion.
- No internal control recommendations identified.

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. SS and VP concurred that the process had gone well from the College management perspective. The meeting considered the Management Report in detail.

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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; defined benefit pension scheme; and risk of management override; staff costs; Regularity review; and preparations for merger. Governors noted that Moore Stephens conclusion against each of these risks was clean and that there were no issues identified which needed to be reported to the Audit Committee. The meeting also noted the assurances given around the risk of fraud and independence. Audit Committee members and attendees were pleased to note that for the sixth consecutive year there had been no recommendations for improvements made by the financial statements auditors. The meeting also noted that there were no unadjusted misstatements to report; there had been a presentational adjustment of £167,000.

NS thanked the College Finance Team for their support and cooperation throughout the annual audit which had been recognised in the Management Letter; the College preparation work had been very thorough. It was noted that the lack of recommendations highlighted a positive control environment at Uxbridge College. The Audit Committee members commended the College finance team and Moore Stephens for another positive result.

***The Audit Report and Management Letter of the External Auditors, Moore Stephens, for Uxbridge College 2016/17 was APPROVED and would be taken to the HCUC Corporation for approval (12<sup>th</sup> December 2017).***

***It was AGREED that Moore Stephens should change the Management Letter to be addressed to the Corporation of HCUC.*** NS

v) Letter of Representation

The meeting noted the draft Letter of Representation at Appendix 2 to the Management Report; 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 Uxbridge College.

***The Letter of Representation for Uxbridge College would be taken for approval to the HCUC Corporation (12/12/17) before being signed by the Corporation Chair on behalf of the Corporation, and the Group Principal/ CEO as Chief Accounting Officer of HCUC.***

vi) Funding Assurance Report completed by KPMG

The meeting welcomed KR to the meeting to present the report along with the Funding Auditors from KPMG. The meeting considered the report from KPMG which had been commissioned by the College to replicate work which was commissioned by the Skills Funding Agency (SFA) within the annual national sample of Final Funding Returns. This was to enable the College to gain its own assurance over FE income. The KPMG report had examined the College's final ILR for 2016/17, dated 20 September 2017 using the Skills Funding Agency testing programme. Substantive testing was undertaken on a sample of: 30 EFA funded 16-18 learners and 30 SFA funded learners (comprised of 16-18 Apprenticeship, Adult Apprenticeships, Adult Education Budget, Classroom-based and Traineeships); and 10 Advanced Learner Loan learners. There had also been a review of the College's Provider Data Self Assessment Toolkit (PDSAT) reports to include targeted sample testing to mirror the current SFA Audit format.

The meeting was pleased to note the five areas of good practice that had been identified in the report and the fact that no high or medium priority recommendations had been made. The two low priority 'housekeeping' recommendations were noted as being in relation to: ESOL assessment evidence and Adult Learner Loans (first Level 3). KR confirmed that both of the housekeeping suggestions had been agreed for adoption by College management to improve efficiency and effectiveness; the Principal highlighted that one of the errors (on the DSAT testing) had been identified by the College team in advance of the KPMG audit and flagged with the SFA. The two recommendations and their implementation were considered in more detail by the meeting.

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*The Chair asked that KR feedback congratulations to her team on the excellent outcome of the audit.*

*The Funding Assurance Report of, KPMG, for Uxbridge College 2016/17 was RECEIVED and APPROVED and would be taken to the HCUC Corporation on 12<sup>th</sup> December 2017.*

## 17. To RECEIVE the Report & Financial Statements and associated reports for the period ended 31 July 2017 for Harrow College

### i) Financial Statements

The following key points were highlighted:

- The operating deficit for the year was £194,000 (compared with a surplus of £391,000 in 2015/16) before the £1.868m gain on disposal of the Austen Building. This deficit included pension charges of £727,000.
- Overall surplus for the year was £1.674m (compared to prior year figure of £1.895m when asset disposal had realised £1.504m).
- Once the impact of the FRS17 pension surplus was applied this resulted in a final Total Comprehensive Income' surplus of £5.127m (compared with a surplus of £315,000 in the prior year).
- The College had accumulated net assets of £14.838m (£9.711m in prior year) and cash balances of £6.107m (£5.344m in prior year).
- The LGPS pension liability was £7.586m compared with £10.312m last year.

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 2016/17 the College delivered activity that produced £19.593m income (£19.733m in prior year); this was £108,000 below budget primarily due to underperformance on SFA and apprenticeship delivery. This had been partly offset by higher than anticipated income in relation to High Needs learners. The total Agency funding was noted as being at 81.09% of income (same as in the prior year). Expenditure was noted as increasing from £19.342m to £19.787m (of this £13.693m related to staff costs compared with £12.8m in the prior year). The meeting noted the detail of the fixed asset additions during the year which amounted to £3.579m; of which £3.167m was on assets in construction at year-end. The meeting noted the financial performance indicators for the 2016/17 year:

- Adjusted operating surplus of 8.74% of income (including gain on disposal of asset).
- 116 cash days in hand (100 in prior year 2015/16)
- Current ratio (assets less liabilities) of 1.84 (2.00 in 2015/16)
- Available reserves at 14.36% of income
- EBITDA at 5.6% which was down on the prior year figure of 8.43%.
- 71.1% staff costs as a percentage of income including agency staff (66.27% in prior year). This figure reduced to 68.6% when pension cost was excluded (64.6% prior year).
- Premises costs £85.46 per square metre (£90.24 in 2015/16)

Governors sought additional clarity around the increased staff costs as there had been no pay increase awarded during the year. PC informed the meeting that incremental drift up the wide Harrow College pay-scales had contributed to the increase. The increase in agency staffing was largely due to the additional work with High Needs learners; this element of additional staffing cost had been offset by the associated income.

The detailed notes to the accounts were considered in detail by the meeting.

**Members' Report (page 9): members suggested that the narrative should be amended to include a reference to Harrow College now being part of HCUC post-merger. BS/SS**

**Members' Report (page 13): The Chair asked for an addition to the first line on this page '...through the College internet site, and other methods of communication'. BS/SS**

**Balance Sheet: The meeting asked KPMG to add a note to the accounts explaining the**

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change in Harrow College reserves compared with the prior year. The Chair also asked for a presentational change on the Balance Sheet (page 32): the line under Pension Reserve should be deleted. BS

Members' Report (page 22): The Chair asked for a review of the wording around 'Going Concern' as he felt it read in a negative way. The meeting agreed that this should be reviewed and should reflect the fact that teaching and the use of all assets at Harrow College would carry on post-merger. BS/SS

The meeting considered and noted the Statement of Corporate Governance and Internal Control and the assessment of the College as a 'going concern'. It was noted that as with the Uxbridge College Report the senior members of the SMT had contributed to the narrative of the Members Report. It was agreed that the College's financial objectives 'To be a viable and efficient College. To meet specific financial KPIs, including to achieve financial health rating of 'good'', had been partially achieved.

ii) SFA Finance Record

The meeting also noted the SFA Finance Record which would be submitted on behalf of the College; this confirmed a financial health grade of Good for 2016/17.

iii) July 2017 Management Accounts

The restated Management Accounts for 31 July 2017 were also noted by the meeting and the adjustments arising from the preparation and audit of the Financial Statements.

**The 2016/17 Financial Statements, SFA Finance Record and July 2017 Management Accounts for the former Harrow College were NOTED and RECEIVED, (they would be recommended to the HCUC Corporation for approval by the Resources Committee).**

iv) Audit Report and Management Letter of the External Auditors, KPMG, following their audit of the Harrow College Financial Statements for 2016/17, for APPROVAL & recommendation to Corporation.

KPMG presented the Management Report and the following areas were highlighted:

- Clean unqualified opinion.
- No internal control recommendations identified.

KPMG (BS) informed the meeting that the audit had gone smoothly from their perspective; following the merger on 1<sup>st</sup> August 2017 and the new HCUC Finance Team had been very well prepared to undertake the Harrow external audit as well as the one for Uxbridge College. The meeting considered the Management Report in detail. The meeting went onto 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 controls; sale of Austen Building and car park; and deferred capital grant and related spend. The meeting noted the issue around a likely clawback of funding by the SFA (£550,000 in relation to issues identified by the KPMG Funding Audit which was commissioned by HCUC management, see below for details). The one audit misstatement that was in relation to unspent funds for Free School Meals in 2015/16 (£170,000 was noted by the meeting). Governors were given assurance that this amount had now been reversed out of income and held as a creditor pending potential repayment to the ESFA. The meeting also discussed the issue which KPMG had highlighted in relation to £13.6m of deferred capital grants being held on the balance sheet; this was not material but good practice suggested that this should not be carried on the balance sheet. The meeting also noted the narrative around the other areas of audit focus with specific reference to the merger; KPMG had considered disclosure of loans and borrowing, and VAT crystallisation. The Going Concern statement was noted and approved; both for Harrow College and the newly merged HCUC Group. The Appendix 3 to the KPMG Management Report was commended as useful by the meeting; this outlined current developments and issues within the Further Education sector.

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The issues highlighted were: the OECD Report 'Education at a Glance'; new corporate criminal offences after the introduction of the Criminal Finances Act in September 2017; the new General Data Protection Regulation which would come into force on 25<sup>th</sup> May 2018; and the requirement for Gender Pay Gap Reporting. The clean opinion around the Regularity audit was highlighted by KPMG.

***The Audit Report and Management Letter of the External Auditors, KPMG, for Harrow College 2016/17 was APPROVED and would be taken to the Corporation for approval (12<sup>th</sup> December 2017).***

***It was AGREED that KPMG should change the Management Letter to be addressed to the Corporation of HCUC.***

BS

v) Letter of Representation

The meeting noted the draft letter of representation which KPMG had prepared.

***The Letter of Representation for Harrow College would be taken for approval to the HCUC Corporation (12/12/17) before being signed by the Corporation Chair on behalf of the Corporation, and the Group Principal/ CEO as Chief Accounting Officer of HCUC.***

vi) Funding Assurance Report completed by KPMG

The KPMG report had examined the College's final ILR for 2016/17, dated 19 September 2017 using the Skills Funding Agency testing programme. Substantive testing was undertaken on a sample of: 30 EFA funded 16-18 learners and 30 SFA funded learners (comprised of 16-18 Apprenticeship, Adult Apprenticeships, Adult Education Budget, Classroom-based and Traineeships); and 13 Advanced Learner Loan learners. There had also been a review of the College's Provider Data Self Assessment Toolkit (PDSAT) reports to include targeted sample testing to mirror the current SFA Audit format. The meeting noted that the preparedness for the funding audit had been markedly less good at Harrow College compared with Uxbridge; files and evidence were missing and the MIS team were less responsive. GC asserted that the very strong control environment in place at Uxbridge was clearly missing at Harrow; this included regular use of the DSAT plus an additional layer of compliance processes written by Uxbridge MIS staff.

The meeting was very disappointed to note the 25 recommendations in the report, 12 of which were 'high' priority, 8 were 'medium' and 5 were 'low'. It was noted that all recommendations had been adopted by HCUC management. KPMG (GC) clarified that if this had been an SFA funding audit the recommendations would have been condensed and there would probably have been 5 or 6 'high' priority recommendations. However, the decision was taken with management to keep all of the recommendations separate in order to provide maximum transparency for the College and to enable a clear remedial action plan to be drawn up. LS expressed her concern at the level of the errors identified and highlighted the likely clawback after a funding reduction in the ILR for 2016/17 of circa £410,000. The meeting noted that HC had been subject to an SFA Funding audit during the prior year and HC internal auditors TIAA had also audited the funding at HC during January 2017; neither of these audits identified any of the issues raised by KPMG. The meeting considered the recommendations in detail and noted the serious issues that had been raised. Governors sought, and were given, assurance that the new HCUC Director of Funding & Information Services (previously MIS Director at Uxbridge College) had already started to implement a remedial action plan and to put revised processes in place to ensure that similar errors on the Harrow College ILR did not occur during 2017/18. KR informed the meeting that the first priority was a full curriculum review to ensure that learners were not on the wrong qualifications and also to tackle the issues raised around level 3 learners. Governors were assured that the next step would then be to move onto ensuring full register compliance. KR gave the meeting assurance that all the recommendations would have been implemented by term 2 of the 2017.18 academic year. Governors highlighted that this negative report should also be seen as an opportunity to ensure that Harrow College was taking on good practice recommendations. The meeting sought, and was given, full assurance that the action plan would immediately focus on the high rated risks in relation

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to income for 2017/18 in order to ensure predicted income was secure across the whole of the HCUC group.

***The Funding Assurance Report of, KPMG, for Harrow College 2016/17 was RECEIVED and APPROVED and would be taken to the HCUC Corporation on 12<sup>th</sup> December 2017.***

## **18. Any Fraud/ Corruption issues 2017/18.**

It was noted that there were no known attempted fraud or corruption issues to report year-to-date. SO highlighted the increased incidences of fraud being perpetrated throughout the sector and the need for staff to stay vigilant. The meeting discussed the Action Fraud website.

***The report was NOTED***

Signed ..... ***Mike Cox (Chair)***

Date.....