

Minutes of Audit Committee held on Monday 30th November 2020 starting at 5pm via Microsoft Teams

Members Present: Sharon Birdi
Liam Butler
Ester Gopoza
Wendy Davies

In Attendance: Andy Comyn (Chief Operating Officer)
Gill Darwood (Senior Officer - Corporate Governance) (SOCG)
Mark Dawson (KPMG)
Tony Felthouse (KPMG)
Neil Thomas (Chief Executive & Principal)
Louise Tweedie (RSM)

1 Confirmation of quorum and apologies for absence

1.1 Apologies for absence were received from Charlie Harvey and Assam Hussain (RSM). In the absence of Charlie Harvey, Liam Butler (Vice Chair) chaired the meeting.

1.2 The SOCG confirmed that the meeting was quorate.

2 Declarations of Interest

2.1 There were no declarations of interest.

3 Minutes of Meeting on 5th October 2020

3.1 The minutes were accepted as an accurate record for signature by the Vice Chair.

4 Matters Arising

4.1 There were no matters arising.

5 External Audit, 2019/20

5.1 Management Letter (with Annual Report and Financial Statements 2019/20 for information)

5.1.1 The COO presented the management letter and draft consolidated financial statements for the year ended 31st July 2020. He explained that the management letter had been prepared by KPMG the college's statutory and regularity auditors, and provided a summary of the key findings arising from the audit work. The annual accounts were substantially complete, however some of the notes required further updating ahead of approving the accounts at Corporation, although no significant changes were anticipated.

5.1.2 KPMG had completed the majority of their audit work and anticipated issuing an unmodified Auditor's Report on the financial statements subject to satisfactory completion of the small number of outstanding matters, which was effectively confirming that all appropriate accounting practices had been followed and the accounts provided a true and fair view of the financial position at 31 July 2020. Furthermore, in terms of their regularity audit work KPMG intended to report that nothing had come to their attention to suggest that the income and expenditure in the year had not been applied to the

purposes intended by Parliament and the relevant authorities. Pleasingly no new control observations or recommendations were identified from the audit this year.

5.1.3 The COO reported that since the management letter was issued, KPMG had confirmed they agreed with the approach taken that at the reporting date of 31 July 2020 the college was in compliance with its covenants and as such they accepted the bank loans being classified as long-term creditors due after more than one year. KPMG would be issuing a revised management letter to reflect this point.

5.1.4 M Dawson noted that the audit had been undertaken remotely with few issues arising from audit which was a good reflection of the work of the College finance team.

5.1.5 T Felthouse outlined the summary of findings contained within the report and confirmed that many of the outstanding items had been addressed since the draft report was issued to members. He provided clarification in relation to the covenant position in response to a question from W Davies.

5.1.6 Key points arising from the financial statements for the year ended 31 July 2020 were:

- Negative total comprehensive income of -£23.464m compared to -£4.321m last year. The significant variance was mainly explained by the FRS102 pension scheme adjustments amounting to £21.992m, comprising the actuarial loss of £18.586m, combined staff and administration expenses of £3.003m and interest costs of £0.403m, all of which were in respect to the Local Government Pension Scheme and not something that the College was able to influence or control.
- No change to the previously reported £2.203m (4.5% of income) education specific EBITDA - this could be seen in the later paper reconciling the statutory accounts to the managements accounts.
- A decrease in net current assets of almost £1.5m to net current liabilities of £1.446m. This was principally due to an increase in the level of grant funded assets in the course construction at year-end. Cash increased in the year by £1.4m to £3.668m.
- Net assets/reserves decreased by £23.464m to net liabilities of £11.834m, due largely to the increase in the net pension obligations and FRS102 charges arising from the pension scheme noted above.

5.1.7 In relation to the financial statements, the Vice Chair noted that the principal risks did not contain any reference to the uncertainties arising from Covid and the COO confirmed that the figures contained within the draft statements were accurate but there was still some work to do on the notes before final Corporation approval.

5.1.8 **It was resolved** To recommend the management letter to Corporation and to note the draft annual report and financial statements for 2019/20.

5.2 Letter of Representation

5.2.1 The COO advised that the draft letter of representation had been prepared by KPMG to support the Corporation in confirming to KPMG that the financial statements of the college for the year ended 31 July 2020:

- gave a true and fair view of the college financial position at 31 July 2020,
- had been prepared in accordance with the appropriate accounting practices; and
- had been prepared on a going concern basis.

5.2.2 The letter was unchanged from previous years, with clause 12 being amended as in

previous years in comparison to the standard letter of representation.

5.2.3 **It was resolved** To recommend the letter of representation to the Corporation for approval.

5.3 **Audit Committee's Annual Report for 2019/20**

5.3.1 The SOCG presented the report which summarised the work undertaken by the Committee in 2019/20.

5.3.2 It was noted that the Corporation would rely on the Committee's report in its consideration of the financial statements for the year ended 31 July 2020 and this report provided the committee's confirmation that the College's assurance arrangements, framework of governance, risk management and control processes were adequate for the effective and efficient use of resources, the solvency of the College and the safeguarding of its assets.

5.3.3 The COO noted that the report would be submitted to ESFA with the annual report and accounts and management letter.

5.3.4 In response to a request from W Davies, the SOCG agreed to provide her with a copy of internal audit reports carried out during the year and access to past papers of the committee.

5.3.5 **It was resolved** To approve the Audit Committee's Annual Report for 2019/20.

6 **Internal Audit**

6.1 **Internal Audit Progress Report**

6.1.1 The COO explained that the Internal Audit Progress Report set out the work to be carried out by RSM Risk Assurance Services LLP in the 2020/21 academic year.

6.1.2 The internal audits were intended to assist college management and Audit Committee in obtaining an overall view of adequacy and effectiveness of the internal control systems and on risk management.

6.1.3 There were no internal audit reviews to present at this meeting, however two reviews had been undertaken this term and the College was awaiting finalisation of these reports, which would then be presented at the next Audit Committee. The summary of internal audit work to be completed in 2020/21 was:

- Framework for Compliance with Legal and Regulatory Requirements - Freedom of Information and Data Protection - commenced 16th November 2020.
- Higher Education Framework: Selected Controls for Higher Education Students Early Statistics (HESES) survey; Students Loans Company; and Competition and Markets Authority (CMA) - commenced 16th November 2020.
- Procurement, Financial Planning and Budgetary Control Arrangements - commencing 18th January 2021.
- Framework for Compliance with Legal and Regulatory Requirements: Health & Safety and Estates Management - commencing 12th April 2021.
- Follow up - commencing 12th April 2021.
- Resourcing Technically Advanced Provision Advisory Review - commencing 24th May 2021.
- Learner number Systems: Selected Compliance Requirements for Adult Education

Budget (AEB) - commencing 24th May 2021.

6.1.4 L Tweedie confirmed that the internal audit programme was on schedule as per the plan for the year.

6.1.5 **It was resolved** To note the internal audit progress report.

6.2 Rolling Schedule of Audit Recommendations

6.2.1 The COO advised that the report summarised the progress made in implementing the recommendations contained in the Audit Reports submitted by RSM in 2019/20 and by ICCA before that. The report identified those recommendations that remained in progress and highlighted those that had been completed since the last review.

6.2.2 There were five recommendations still outstanding at the last meeting, three of which had now been completed, two recommendations were outstanding and would be carried forward to the next meeting, both of which were medium priority recommendations.

6.2.3 Two internal audit reviews had recently taken place and the College was awaiting finalisation of these before including the recommendations in this report.

6.2.4 The Vice Chair raised a query in relation to item I which related to the teaching and learning observation policy and the time limit for carrying out teaching observations on new staff which it was noted would be amended from three months to a maximum of six months. He asked if this change would reflect best practice in the sector and the COO agreed to obtain clarification on this point.

6.2.5 In response to a question from S Birdi in relation to item 4 on Key Financial Controls, the COO advised that the College was confident that a revised completion date of 31st December 2020 was achievable.

6.2.6 **It was resolved** To note the rolling schedule of audit recommendations.

7 Risk Management

7.1 Risk Management Policy Review

7.1.1 The COO presented the revised Risk Management Policy and noted that no substantive changes were proposed. A number of minor changes had been made which were highlighted for ease of reference in the policy. He noted that, in the event of members approving item 7.3, the updated risk model proposal, the College considered that this policy would still remain appropriate.

7.1.2 Members felt that the policy would benefit from further clarification in relation to the wording under section 4 which stated "*early warning mechanisms will be put in place and monitored to alert the college so that remedial action can be taken to manage potential hazards*". It was agreed that this would be amended to state "*early warning management information and reporting tools*'

7.1.3 **It was resolved** To recommend the risk management policy to Corporation for approval subject to the amendment on section 4.

7.2 High Level Risk Register

7.2.1 The COO advised that members of the Executive Leadership Group had updated the high level risk register since the last meeting. The risk register showed the college's current

level of risk, along with historical risk levels and dates, with a note briefly explaining the factors affecting the latest risk score.

7.2.2 There were no new risks added to the list but two risks had been changed and were summarised as:

- CCR.40 - Failure to recruit sufficient high quality industry standard staff - Likelihood increased from 3 to 4 due to the increased risk in meeting the financial cost of recruiting and potential candidates not being willing to move given the uncertainties arising from Covid.
- CCR.14 - Failure to continue to manage redundancy and industrial change - Likelihood increased from 3 to 4 due to the heightened risk around Covid.

7.2.3 **It was resolved** To approve the high level risk register.

7.3 Updated risk model proposal

7.3.1 The COO presented a proposal to amend the risk model with the aim to categorise risks and provide a more holistic approach to risk management.

7.3.2 The proposal was to have a maximum of 6 categories and calculate the risk score on a 3 x 3 matrix as (likelihood x impact) + impact which would then weight risks according to their potential impact.

7.3.3 Unmitigated and mitigated risk spider charts would be created based on the risk assessment and scores to provide a clear summary of the college's risks compared to its risk appetite.

7.3.4 For the purposes of illustrating the model the COO explained that he had set the risk appetite at 7 and members discussed the appropriate level for this, agreeing that it would be preferable for this to be varied by category, as the risk tolerance in some categories would be higher than in others.

7.3.5 Members endorsed this approach which it was felt would provide a clear focus on areas where there was a need to manage risk more closely whilst providing flexibility. The Vice Chair noted that it would be helpful to link early warning indicators to each risk which the COO agreed would be useful to be included in the mitigation.

7.3.6 It was agreed that the revised model should be run in parallel to the existing model and once the committee was happy with the new approach this could be taken to the Corporation for formal approval.

7.3.7 **It was resolved** To trial the updated risk model in parallel to the current model.

8 Policies

8.1 Digital Signing Policy

8.1.1 The COO presented a new draft Digital Signing Policy. He advised that the policy would give the ability for the College to use a number of digital and electronic signature solutions to replace more traditional methods for obtaining signatures for legal documents and learning agreements. This has been written with the support of internal auditors RSM to ensure that the process was compliant with external bodies' requirements.

8.1.2 **It was resolved** To recommend the Digital Signing Policy to Corporation for approval.

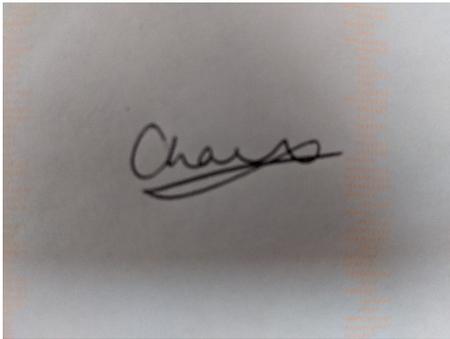
9 Date of Next Meeting

9.1 The date of the next meeting was noted as Monday 8th March 2020 at 5.00pm.

10 Any Other Business

10.1 No further matters were raised.

The meeting closed at 17.55 hours.

A photograph of a handwritten signature in black ink on a document. The signature is written in a cursive style and appears to read 'Charlie Harvey'. The background of the document is slightly blurred, showing some faint orange text on the right side.

Charlie Harvey, Chair

8th March 2021