

## **MINUTES OF AUDIT COMMITTEE MEETING HELD ON 3<sup>RD</sup> DECEMBER 2018**

<b>Present:</b>	Valerie Allen	External Governor
	Karen Banks	External Governor
	Neil McGrath	External Governor (Chair)
	Tom McInerney	External Governor
	Lynn Pegler	External Governor
<b>In attendance:</b>	Julie Holland	Deputy Principal (Finance & Resources)
	Richard Lee	KPMG (minutes 41 to 66)
	Lesley Venables	Clerk to the Governors

### **APOLOGIES FOR ABSENCE**

41 Apologies for absence were received and accepted from Rob Jones (KPMG).

### **DECLARATION OF INTERESTS**

42 No declarations of interest were received.

### **MEETING WITH AUDITORS**

43 The Committee met with the Auditor in the absence of senior management. Governors were advised that the audit process had gone smoothly, that there was a good working relationship with College staff and that there were no significant issues to report.

44 The audits on the Teachers' Pension Scheme and sub-contracting provision were undertaken separately from those on extended assurance and the financial statements. Funding audits were carried out by another firm within the sector and any such appointments were made by the Education & Skills Funding Agency.

45 Governors asked whether the same staff were used for both extended assurance and financial statements/regularity audit work. The Auditor reported that this depended on the area in question and whether specialist skills were required (such as for the audit on GDPR). For example, the staff from the extended assurance team had carried out the work on financial controls.

## **MINUTES OF MEETING HELD ON 15<sup>TH</sup> OCTOBER 2018**

- 46     **Resolved -** That the minutes of the meeting held on 15<sup>th</sup> October 2018 be approved as a correct record and signed by the Chair.

### **MATTERS ARISING**

47     The Committee received a list of actions resulting from the previous meeting and noted that all items were either in progress or had been completed.

48     Under minute 20, the Deputy Principal (Finance & Resources) presented an updated assurance map, which would be used to inform any changes to the annual plan of audit work for 2018/2019.

49     The Clerk had sourced guidance on the role of governors as trustees and would circulate the relevant documents to the Committee (minute 30 refers).

### **FINANCIAL STATEMENTS 2017/2018**

50     Governors received the draft Financial Statements for 2017/2018, together with the Management Letter issued by the Auditors. The content and presentation of the Financial Statements was prescribed by statute and the relevant accounting standards.

51     The Auditor advised that an unqualified opinion had been issued for both the Financial Statements and the Regularity audits.

52     Three significant audit risks had been identified, two of which the auditor was required to report on, namely, revenue recognition and the override of management controls. The robustness of both areas had been tested during the audit and there were no issues to report.

53     Assumptions relating to the College's contribution to the Local Government Pension Scheme had been reviewed and it was noted that the results fluctuated from year to year, which could have a significant impact on the Financial Statements.

54     The valuation was a judgement made by management, which was compared to the benchmarks used by KPMG's actuaries. The demographics of each of the two pension schemes were very different. The TPS was a national scheme, which did not disaggregate the assets and liabilities of individual colleges and the value of which was guaranteed by the Government. Only the contributions made to the Scheme were included in the balance sheet.

55     Provision had been made in the College's Financial Forecast to cover any increases in TPS contributions.

56     Governors were advised that the exchange of contracts and completion of the sale of the Runcorn Campus was imminent, with one further matter to be resolved.

57 One low priority recommendation had been raised during the audit on undertaking a formal impairment review of the College's accommodation assets.

58 The operating surplus (after taking into account the impairment of the Runcorn Campus and the pension costs) was £1.989m. This compared to a surplus of £33K in 2016/2017 and was attributable to costs to support continued growth in the College's provision without an increase in funding (due to the ESFA lagged model) and a 1% pay increase during 2017/2018.

59 Total borrowings had been reduced and income for apprenticeships, HE and tuition fees had increased significantly.

60 The Committee noted that the College's financial health rating remained as 'outstanding' and there had been full compliance with the bank covenants on its existing loans.

61 Governors also received for information a summary of significant external developments which may impact on the current academic year and any future accounting period.

62 **Resolved -** That, subject to any further minor typographical amendments and receipt of the reconciliation statement from the Education & Skills Funding Agency, the Financial Statements for 2017/2018 be submitted to the Board for approval

**Richard Lee left the meeting at this point.**

## **ESFA FUNDING AUDIT**

63 The Deputy Principal presented a draft report from the ESFA on a recent funding audit. One low priority recommendation had been made, which related to ensuring that any learners used as a match to European Social Funding must comply with any relevant regulations.

## **AUDIT COMMITTEE'S ANNUAL REPORT 2017/2018**

64 The Committee received a draft of its Annual Report to the Board and to the Principal (in her capacity as Chief Accounting Officer) for 2017/2018. The Report summarised the work of the Committee in 2017/2018, along with the outcome of the various audits. It concluded that, in the Committee's opinion:

- i) the College's systems of internal control are adequate and effective
- ii) the College's arrangements for risk management, control and governance framework and processes for securing economy, efficiency and effectiveness are adequate and effective.

65 It was noted that a total of 8 recommendations had been made by the Extended Assurance Auditor during 2017/2018, none of which had been classified as 'high priority', 4 of which had been graded as 'medium priority' and the remaining 4 as 'low priority'.

66 The Report had been prepared in line with the requirements of the Post-16 Audit Code of Practice and the English Colleges' Code of Good Governance. The Committee's terms of reference had also been aligned to the Post-16 ACOP.

67 Governors requested that a session on data quality should be provided to a future meeting and that detailed information on progress against previous recommendations should be included in the final version of the report.

68 **Resolved -** That the Audit Committee's Annual Report for 2017/2018 be submitted to the Board for information and sent to the Education & Skills Funding Agency with the Financial Statements

## **RISK MANAGEMENT UPDATE**

69 The Deputy Principal presented an update on risk management issues that had occurred in the Autumn Term.

70 Governors were advised that one new risk had been added on mental health issues. Risks relating to "Brexit" had been considered but had not been fed through to the recent risk mapping exercise.

71 The Committee congratulated the management team on the quality and effectiveness of the College's risk management processes.

## **ITEMS TO BE REPORTED TO THE BOARD**

72 The Chair summarised the key points that would be reported to the full Board at its meeting on 17<sup>th</sup> December 2018:

- Financial Statements and Representation Letter recommended for approval by the Board, with no significant issues identified and unqualified opinions on the Financial Statements and Regularity Audits.
- Discussion on pensions and the future implications of developments within the FE sector
- Risk Management update – procedures reviewed to map external assurance sources against key risks
- Audit Committee's Annual Report – to be submitted to the Board for information when considering the Financial Statements.

## **DATES OF FUTURE MEETINGS**

4<sup>th</sup> March 2019 at 5.00 p.m.

24<sup>th</sup> June 2019 at 5.00 p.m.