

Present:

Alison Watson-Bird (Chair), Martina Jay, Michael Lowe, Martyn Lylyk

In Attendance:

Fatema Hussein (Head of Governance), Karen Musgrave (RSM), Hannah Parker (Mazars), Chris Hogan (Mazars), Peter Cudlip (Mazars) Clare Russell (Principal), Janet Ivill (Director of Finance)

Meeting began 6.30pm

Meeting closed 8.30pm

Attendance: 80%

Venue: MS Teams

1. APOLOGIES FOR ABSENCE

Apologies were received and accepted from Stephen Gregson.

2. DECLARATION OF INTEREST

Governors / Members were invited to declare any direct, indirect, pecuniary, personal or prejudicial interest relating to any item on the agenda for the meeting

No declarations were made.

3. MINUTES OF THE MEETING HELD ON 16TH JUNE 2020

3.1 Approval of the Minutes – Part 1 & 2

Agreed: that the minutes are signed as a correct record and authorised for publication (Part 1)

Subject to: Item 2 which should read that:

“Grant Thornton had been appointed as External Auditors for Preston's College”

3.2 Matters Arising from the Minutes

The action progress log was reviewed and the Principal reported that the mock inspection had had been preceded by a 2 day interim visit form Ofsted with a letter of the outcome published by Ofsted.

4. INTERNAL AUDIT

Mazars presented the internal audit reports with the following points highlighted to the Committee:

Student Transport

- An adequate assurance opinion had been provided based on the effective controls and good practice of the College's student transport arrangements
- Recommendations for improvement had been made in the following areas:
 - Recording of bus operator performance information for the current 2020-21 academic year
 - Formally reviewing the three bus operators risk assessments
 - Developing a formal reporting structure to ensure that bus operator performance was scrutinised.
- Mazars had also arranged a meeting between Runshaw's Director of Finance and the Group Director of Student Services at Chichester College Group
- The meeting had allowed Runshaw to compare their transport model and pricing strategy with another College who had made radical changes to their model
- All bus operator contracts were coming to an end this academic year, but the College had not yet carried out an exercise to assess whether all contracts would be extended or re-procured
- However, this was scheduled to be performed in January 2021

Governor Questions

- Q.** Would the budget variance on transport costs have a cash impact on the College or was this notional?
- A.** There would be a cash impact as not all students were attending the campus every day due to Covid, and a rebate had to be offered as a result of this
- Q.** Were resource pressures created by Covid19 still a challenge or had things settled down now?
- A.** The first half-term had been challenging with a number of staff having to self-isolate, but the situation had improved

Progress Report

All audits were on track with two minor amendments made to timescales. The cyber security audit had been brought forward at the request of management.

Annual Report

- Despite the restrictions imposed as a result of Covid-19, the College retained a full scope internal audit service for 2019/20
- Based on the work undertaken, Mazars had been able to provide an annual opinion on the College's arrangements for risk management, control and governance
- As a result of government restrictions from March 2020, internal audit visits from March to July had been undertaken remotely, but this had not impacted on the audits Mazars were able to deliver
- However, some changes were made to the plan within the year
- The Student Transport Strategy review was postponed to 2020/21 and replaced with a Quality Management Systems (Ofsted Readiness) review due to the changes in the Education Inspection Framework (EIF)
- The Information Systems – Project Management audit had been cancelled and replaced with advisory work and support from the Mazars Business Consulting Team in respect of the College's recovery planning arrangements

- Based on the audit work, Mazars opinion on the framework of governance, risk management, and control was that it was Moderate in its overall adequacy and effectiveness
- In comparison to Mazars other clients across the FE sector, the College's performance was better with a higher percentage of 'Substantial' assurance reviews
- Between the 2018/19 and 2019/20 academic year, there had been a significant increase in the number of substantial assurances provided, and a decrease in the number of adequate assurances
- In comparison to the Mazars FE client base, the College's performance in respect of recommendations overall was stronger than the sector average with more 'Housekeeping' recommendations

Governor Questions

Q. How many Colleges had been included in the sector benchmarking data?

A. Approximately 40 Colleges

The Committee thanked Mazars for the report and agreed that it was very informative, and in particular, the inclusion of sector benchmarking data.

5. AUDIT RECOMMENDATIONS MONITORING REPORT

- 5.1 Open Items
- 5.2 Closed Items

The Director of Finance reported that two recommendations had been carried forward from the last academic year. There were six actions to be completed and these were due in December 2020 and February 2021.

6. FINANCIAL STATEMENTS AND REGULARITY AUDIT

6.1 Final Audit Findings Report for Year Ended 31 July 2020

RSM presented the report for the year ended 31 July 2020 and confirmed that the report would be submitted to the funding bodies together with the financial statements.

The following issues were brought to the Committee's attention:

- No unadjusted audit adjustments had been identified
- No significant deficiencies had been identified in internal controls
- There was no significant risk of under delivery in respect of the Adult Education Budget given the ESFA's response to the Covid-19 impact
- The total pension liability had increased from £11,885k to £20,386k and was predominantly driven by an increase in the pension scheme liabilities and a reduction in the valuation of plan assets at the year-end valuation date
- Governors were requested to note the increase in the liability
- The financial plans, budgets and forecasts prepared by the College, including the worst-case scenario forecasts, for the period to July 2022 had been reviewed and no issues identified from this
- The forecast covenant compliance had been reviewed and given the removal of the Santander covenant in relation to Net Assets, RSM were satisfied that the College was not forecasting any breaches
- The bad debt provision as a % of trade debtors had increased from 4% in 2019 to 22% in 2020
- Bad debt provision had increased due to the changes in trade debtors each year end, and that the balance was comprised of debtors that were over 3 months old

- 2 recommendations were being made in relation to internal controls and these were in relation to Fixed asset existence testing and the Santander business account

RSM advised that other than the above issues, they had no other matters of significant interest to discuss with the Committee in relation to both the College's accounting and financial control systems or the regularity framework and overall control environment. Accordingly, they would be issuing unqualified opinions.

Governor Questions

- Q.** Was management confident that the bank covenants could be met and not impact on the Going Concern opinion?
- A.** College was comfortable with the covenants agreed with Santander. The Barclays covenant had been adjusted in the last financial year. Discussions had taken place with Barclays with a view to extending the adjustment to the ratio, as Covid had affected bus and catering income and resulted in additional cleaning costs
- Q.** The pension scheme deficit had increased substantially and did this need to be explained more fully in the accounts?
- A.** An explanation had been provided within the report. RSM stated that quite a few Colleges had seen an increase in the pension deficit which was due to economic factors
- Q.** Did management have any concerns in relation to the trade debtors and the impact this could have on solvency?
- A.** There were no concerns at present as a large proportion of the outstanding debt had now been paid

6.2 Representation Letters 2019/2020

The Committee received and considered the Financial Statements and Regularity Letters of Representation for Year Ended 31 July 2020. There were no issues raised.

RESOLVED:

The Committee endorsed the Letters of Representation for formal signature on behalf of the Corporation.

ACTION:

Head of Governance / Board Agenda

6.3 Regulatory Self- Assessment Questionnaire 2019/2020

The Committee considered the self-assessment questionnaire, the purpose of which was to:

- Provide assurance on the framework of internal controls
- Inform the corporation's statement on regularity, propriety and compliance within the terms and conditions of funding
- Inform the work of the independent auditors

There were no issues of concern to report.

RESOLVED:

The Committee agreed to recommend the self-assessment questionnaire for signature by the Chairman of the Corporation and the Chief Accounting Officer.

ACTION:

6.4 Letter of Engagement

The Committee received the Letter of Engagement for the Financial Statements and Regularity Audit for the year ended 31 July 2020. RSM advised that the letter had been revised partly as a result of changes to the Audit Code of Practice.

7. REPORT AND FINANCIAL STATEMENTS FOR YEAR ENDED 31 JULY 2020

The Report and Financial Statements for the year ended 31 July 2020 were presented to the Committee.

The Committee considered the Report and Financial Statements, with particular regard to the Strategic Report, Statement of Corporate Governance and Internal Control and the Statement of Responsibilities of Members of the Corporation and the Independent Auditor's Reports.

It was noted that the Statement of Corporate Governance had been reviewed by the Head of Governance and some minor changes in relation to Board membership and performance had been provided to the Director of Finance.

That the Financial Statements for Year Ended 31 July 2020 are recommended to the Corporation Board for approval.

ACTION:

Head of Governance / Board Agenda

8. AUDIT COMMITTEE ANNUAL REPORT 2019/2020

Members considered the report the purpose of which was to advise the Board on the effectiveness of the College's systems of internal control.

The Committee concluded that it continued to function effectively and in accordance with the Post 16 Audit Code of Practice and its own Terms of Reference.

RESOLVED:

That the Audit Committee Annual Report be submitted to the Corporation for approval.

ACTION:

Head of Governance / Board Agenda

9. COUNTER FRAUD STRATEGY

The key changes to the strategy were highlighted and the Director of Finance explained that due to the impact of Covid, College was not handling as much cash as it had done previously. An internal audit of fraud risk was planned to take place in December.

9.1 FRAUD SELF-ASSESSMENT CHECKLIST

Governor Questions

Q. Had College ensured that all relevant paperwork and evidence was in place in relation to any furlough monies that had been claimed?

- A. Only catering staff had been furloughed and College had been mindful of claiming only what was necessary. The catering provision had made a loss in the last academic year as a result of the national lockdown

RESOLVED:

The Committee considered and approved Counter Fraud strategy and the self-assessment checklist.

10. RISK MANAGEMENT PLAN OCTOBER 2020

The Director of Finance presented the Risk Management Plan which described the College's approach to Risk, responsibilities of college managers and outlined the process of risk management to ensure the effective continuation of the management of risk.

RESOLVED:

The Committee approved the Risk Management Plan and endorsed the proposal to continue with a low risk appetite approach

10.1 RISK MANAGEMENT POLICY OCTOBER 2020

The Director of Finance presented the policy and advised that no significant changes were being proposed.

RESOLVED:

The Committee recommended the Risk Management Policy (November 2020) to the Board

ACTION:

Head of Governance / Board agenda

11. RISK MANAGEMENT

11.1 Risk Management Annual Report 2019/2020

The Director of Finance presented the Risk Management Annual Report 2019/2020. The report set out the risk management policy requirements, reviewed significant risks identified in the year to 31 July 2020 and outlined the risks perceived as significant for the current year to 31 July 2021 and how they would be addressed.

The report had concluded that :

- There was an adequate process for managing risks within the College
- The process had operated throughout the year to 31 July 2020 and continued to operate for 2020/21.
- The College had complied with relevant sector guidance and recommendations concerning risk management and corporate governance

It was noted that College was confident of meeting the financial targets for 2020/21 but there was a risk should the College be required to close the campus again. Measures were in place to manage and mitigate those risks.

RESOLVED:

That the Risk Management annual report be noted

11.2 Risk Register incl High Risks and Updates June - October 2020

The Director of Finance presented the Risk Register October 2020 and the risk register updates, and it was noted that:

- There were currently 14 high risks on the register, and the majority of these were finance related
- The top two risks were breach of IT Security and Cyber attacks
- Contagious illness was amongst the top three risks
- An IT penetration test had been booked for December

12. AUDIT COMMITTEE REVIEW

12.1 Review of Terms of Reference

The Head of Governance presented the Terms of Reference and advised that two minor amendments were being proposed to reflect the changes to the Audit Code of Practice.

RESOLVED:

The Committee approved the Terms of Reference and agreed that they were recommended to the Board for endorsement.

ACTION:

Head of Governance / Board Agenda

12.2 Annual Performance Review

The Committee completed the self-assessment exercise the results of which would be used to assess the Committee's performance and promote continuous improvement.

14. RSM EMERGING ISSUES

RSM presented the report and provided an overview of key emerging issues within the sector.

Governor Questions

Q. How had other Colleges responded to the lockdown and Covid?

A. The sector had responded very well with land-based Colleges having been impacted quite severely. The beginning of the 2020/21 academic year had presented many challenges with staff shortages due to self-isolation. There were an additional 20,000 16-18 year olds in the sector this year and this had created additional pressures on finances due to lagged funding

14.1 RSM – AUDIT & RISK COMMITTEES (Navigating Covid19)

Members considered the document and requested that management provided responses to the following questions as recommended by the National Audit Office:

Q. Were any changes needed to the design and implementation of internal controls to respond to COVID-19?

A. Changes were made to controls in relation to signing off invoices with the introduction of a payment summary sheet that required approval by the Senior management team

Q. Had internal audit assessed the design, implementation and operational effectiveness of revised internal controls?

A. An assessment had been undertaken by the external Auditors with no issues or concerns raised

Q. Can the negative impact of any changes be reversed?’

A. There had been a negative financial impact on catering and transport income and this would need addressing

Q. Where changes were made to controls, did the organisation understand where there was increased risk because of this?

A. The increased risk had been identified and additional safeguards put in place

Q. Has remote working affected the operational effectiveness of internal controls?

A. It did not seem to have but it was quite difficult to gather evidence on this

Q. How have IT services performed during the outbreak?’

A. IT Services had performed exceptionally well with the provision of over 300 new laptops and equipment to staff

Q. Where service organisations are used, have there been any changes to the design and implementation of their controls?’

A. The College did not have any service organisations as most of the operations were in house

Q. Have the provisions in Procurement Policy Note 02/2020 been used by management?’

A. The provisions had not been used

14. GOVERNANCE IMPACT STATEMENT

- Consideration of the Audit Committee annual report to provide assurance to the Board on the system of internal control
- Assurance sought from management regarding the pension deficit
- Review and approval of Counter fraud strategy to ensure that compliance with Audit Code of Practice
- Questions and challenge regarding the impact of Covid on the system of internal control

15. RESERVED BUSINESS

15.1 Approval of Reserved Business Minutes 16th June 2020

Agreed that: the minutes are approved as a correct record.

15.2 Matters Arising from the Reserved Business Minutes

Discussed under reserved business.

15.3 Fraud Log

Discussed under reserved business.

15.3 Confidential meeting between Audit Committee members without presence of executive staff

Discussed under reserved business

15.4 Internal and External Auditor Performance Review and Contract

Discussed under reserved business

16. DATE OF NEXT MEETING

Thursday 11th March 2021 at 6.00pm