

Hereward College



Minutes of: AUDIT COMMITTEE

Date: 22nd November 2021

Time: 8:30 a.m.

Place: via Microsoft Teams

Present: Mr S Brand (Chair)
Mr S Crick
Mr M Crook
Mr K Sonecha

In attendance: Ms S Dent (Vice Principal Finance and Resources)
Mrs A Autherson (Finance Manager) for item 21/06

Mr P Oxtoby (RSM UK Audit LLP)
Mr P Clark (ICCA-ETS)

Mrs Y Doherty (Clerk to the Corporation)

21/01 APOLOGIES

Apologies for absence were received from Ms H Hillyard.

21/02 MEETING WITH THE AUDITORS

Members of the Committee met with the Auditors without College management.

The Internal Auditors confirmed that there was nothing to report beyond the delay to the internal audit schedule that would be covered later in the meeting.

The External Auditors reported that due to the loss of institutional knowledge as a result of staff changes, which had necessitated some coaching of the college finance team, the audit process was behind where it would ordinarily be at this time, with the accounts being considered later in the meeting being 'boiler plate'.

Consideration of the results indicated that the outturn position was not bad but this was not reflected in the narrative. It was suggested that the narrative needed updating to better reflect the position, including acknowledging the imbalance between the difficult year and the results.

It was highlighted that the result in the Education sector had been better but that going forward there would be a need to spend, and it should be expected that this be included in the report.

Points made included:

- That it was a common position as organisations had not spent money as a result of COVID
- The college had shown resilience, with finances and student numbers healthy
- The Vice Principal Finance and Resources had brought fresh impetus and was continuing to learn
- A balanced commentary was not easy to achieve, but needed to recognise staff contribution and the good performance whilst acknowledging that spending had been restricted due to circumstance
- Recognition of the loss of institutional knowledge, in particular the Finance Manager

- Allowing for this and that the Vice Principal Finance and Resources was only just completing the first year of service a reasonable year had been achieved.
- Need to ensure the impact of knowledge loss was recognised by management and actions for future management of such situations identified.

The College Management joined the meeting

21/03 DECLARATIONS OF INTEREST

Mr Crook reaffirmed his employment and that RSM were engaged by his employers though he had no direct engagement with them.

Mr Crick's employment was noted.

On the basis of the business to be considered there were no declarations of interest

FOR DECISION

21/04 MINUTES OF THE LAST MEETING

The minutes of the previous meeting on 14th June 2021 (circulated, document Nov 21/1) were considered.

It was **RESOLVED THAT** the minutes of the meeting held on 14th June 2021 be approved.

21/05 MATTERS ARISING

The Chair provided an update on the recent business considered at Corporation:

- July 2021
Budget 2021/22, and three-year plan
- Sept 2021
Strategy Event:
Strategic Plan 2021 -24
Note College 50th Anniversary
Aim for Outstanding grade
Key objectives and need for investment
Employment
Accommodation Strategy
Behaviour Management
Final draft to be presented for Board approval at meeting in December.

- Oct 2021
Revised budget 2021/22

An update on current student numbers was requested
It was reported that the current total number was 316; 305 day students and 11 residential students.

20/36 Regularity Self-Assessment Questionnaire 2020/21 - Addendum

The Vice Principal Finance and Resources presented the Addendum to the Regularity Self-Assessment Questionnaire 2020/21 (circulated, document Nov 21/2).

It was confirmed that the Committee considered a version of the RSAQ at the meeting in June 2021. However, at the time it had been confirmed that an addendum relating to COVID was due for publication.

It was reported that the addendum had been issued over the summer and completed with the appropriate responses, and was now presented to the Committee. The Vice Principal Finance and

Resources had discussed specifics with RSM. It was confirmed that this was used as part of the regularity assessment and that RSM had no concerns.

Points of discussion/feedback included:

Claiming of COVID related funding – held in the balance sheet account. Was this subject to regular review?

It was commented that the DfE allowed for the holding of the funds but did expect returns to be submitted detailing the spends. It was suggested that given this scrutiny, narrative should be included in the RSAQ return.

It was **RESOLVED THAT** subject to this amendment the RSAQ would be recommended for signature by the Chair and Principal.

Mrs A Autherson, Finance Manager joined the meeting, introductions were made.

21/06 ANNUAL ACCOUNTS/FINANCIAL STATEMENTS

6.1 Financial Statements 2020/21

The report and Financial Statements for the year ended 31st July 2021, (circulated, document Nov 21/3) were considered.

A summary report was provided that detailed key headlines:

- The College made an operating surplus of £520,000.
- There was a decrease in the FRS 102 liability. After the impact of FRS 102 and the treatment of pension liabilities this becomes a deficit of £869,000
- The Total Comprehensive Income for the Year, which takes in to account the actuarial gain in respect of defined benefit pension schemes was £1,651,000.
- Total net liabilities after FRS 102 are £7,488,000. The results are adversely impacted by the Local Government Pension Scheme being treated as a long-term creditor.
- The financial health of the College under the ESFA reporting system remains 'Good'.

Income:

- In 2020/21 the number of residential student numbers reduced to 11 (13 in 2019/20).
- ESFA high-needs funded students, both day and residential, numbered 307 (273 in 2019/20).
- Additional 284 AEB funded students (335 in 2019/20).
- Income increased by 9.2% over the year (3.9% reported in 2019/20) from £8.347 million to £9.113 million.
- Underperformance against the budget of £9.326 million was due to slightly reduced student numbers than anticipated (307 vs 310 in the revised budget).
- 37% of income came from the ESFA (elements 1 and 2 and Adult Education Budget (AEB)), 41% for 2019/20.
- 54% came from third parties (largely Local Authorities), reflecting element 3 funding for 16-19 learners (54% in 2019/20).
- Remaining 9% is other income, 11% for 2019/20.

Expenditure:

- Expenditure was 4% below budget.
- The College achieved cost savings, mainly in staffing, partially offset by an overspend on agency (no agency costs are budgeted).
- Staff costs represented 67% of total expenditure (69% in 2019/20).
- An analysis of key areas of expenditure was provided.

Balance Sheet:

- Fixed assets at the end of the year were £10.258 million (£10.435million in 2019/20).
- The closing cash balance was £5.422 million with net current assets of £2.363 million.
- The requirements of FRS 102 include the reporting of the pensions liability within long term creditors. This has a major impact on the reported total assets of the College which shows a net liability position of £7.488 million.
- The total pensions liability at the end of the year is £15.776 million which is a 7% decrease on the previous year.

Going Concern:

- The Board is required to form a view in approving the accounts of whether the College remains a “going concern”.
- The key consideration for the Board is whether there are cash flow forecasts and monthly budgets covering at least 12 months from the date of approval of the financial statements.
- The College Financial Forecasting Return (CFFR) covered the three years from 2020/21 to 2022/23 and was assessed as having ‘Excellent’ financial health for the years 2020/21 and 2021/22 (no rating given for 2022/23).
- Bank covenants have been met in 2020/21 and will be met based upon the 2021/22 forecast.
- The College has good cash reserves and is rigorously monitoring the financial impact of COVID19, as well as pay and non-pay cost increases resulting from inflation.

The College took out a loan to support an estate master plan which began repayments in 2010 and will complete in 2035. The bank covenant has two requirements:

- Debt service cover – available cash flow for each relevant period shall be no less than 100% of its debt servicing costs. The College is compliant in 2020/21 and the financial forecast for 2021/22 shows compliance on the budget.
- Operational gearing – the ratio of borrowings at the end of each year shall not exceed 500%. The College is compliant in 2020/21 and the financial forecast shows compliance in 2021/22.

Therefore, the recommendation was that the College continued to be a “going concern”.

It was confirmed that the audit was not yet complete with some work still to be completed, with the following highlighted:

- Savings had been made in the prior year due to COVID, in the 2020/21 year there had been different risk factors to manage.
- Costs had increased year on year, but due to savings in the previous year it was an overall strong position.
- Income had been as expected with some additional funding received.
- A good surplus had been achieved.
- Favourable movement on the pension reserve.

Points of discussion included:

Difficult to compare year on year, of importance are future plans, acknowledging that there would be an increase in expenditure and how the College was going to be/maintain being a college of choice.

This was agreed, and that the College was going through a step change as a result of a number of factors, e.g. COVID, increased learner numbers.

It would be necessary to ensure the college was ‘growing’ in the correct way, and that processes and procedures kept pace.

Good information and analysis would be required, that was not person-centred. This needed to include clearer reporting on staffing/hourly costs, delivery vs. funding and forecasting and budgets that married with plans.

Feedback from the external auditor included:

The Financial Statements would include some changes to the format/content of previous years, including a more positive statement regarding the assessment of going concern. There would be comment on laws and regulations (e.g. Education Act and GDPR) but there were no issues.

The College should consider including data on individual governor attendance.

The report was intended to give a fair and balanced view so would benefit from further review to include more detail to explain how the surplus was achieved and the challenges going forward.

There was discussion of dates by when the Financial Statements needed to be finalised for presentation to the Corporation, as the Committee would need to consider any revised version in order to recommend approval.

It was suggested that this was dependent on how much further work was required and the timescales in which it could be completed.

It was confirmed that the Financial Statements were almost complete but RSM were dependent on how quickly the College would be able to provide the outstanding information /detail.

It was also confirmed that including the additional detail in the report should not take very long. It was agreed that RSM would provide an example template.

It was reported that the completion of the Management Accounts was the current focus as these were required by RSM to support the going concern assessment.

The Committee agreed that the final version would be required by the 26th November to allow time for review and to provide the Corporation with the required assurance and recommendation regarding approval.

It was agreed that a further meeting be scheduled for Thursday 25th November 2021

The process for recommending approval was discussed. It was agreed that once the external auditors work had been completed the final version would be provided, electronically, to the Committee members for them to review. They would be requested to confirm, by return, recommended approval to the Corporation.

It was **RESOLVED THAT**, in light of the discussions and the outstanding work to be completed a further meeting of the Committee would be scheduled for Thursday 25th November 2021.

6.2 External Audit Findings Report 2020/21

Mr Oxtoby reported on the External Audit Findings Report (circulated, document Nov 21/4) and these were considered by the Audit Committee. It was highlighted that this contained the detail in so far as the audit process had been completed thus far.

The attention of the Committee was drawn to

- Page 3 – provided detail of outstanding items to be resolved

The key point was the going concern review. This was not considered an issue but increased scrutiny would impact the statement.

Tuition Fees – this was almost concluded but was an example of the impact of lost knowledge.

Risks identified at the planning stage

- Page 5 – Income recognition,

This had been tested. The major change had been the need for substantive testing of the AEB funding due to the change in assurance provided by the ESFA. The number of testing samples was greater than would be considered by the IAS. However, the approach was subtly different to the that of the IAS and it was suggested that the IAS continue to complete funding audits due to this difference in approach.

- Page 6 – Pension scheme liability

The pension liability was reviewed with reference to the actuarial assumptions, financial indices and other factors affecting the scheme. No issues were noted.

Actuarial assumptions were reviewed against those of other similar schemes and actuaries. No issues were noted.

The pension disclosure was reviewed for consistency with the actuaries report and no issues were noted.

- Page 6 – Going concern

There were no issues, cash had increased and the College was in a good financial position.

- Page 7 – Management override

This was looked at in detail due to the fraud risk, some information was outstanding but no issues were anticipated.

- Page 11 - Unadjusted/adjusted accounting misstatements

One reclassification

- The financial reporting section would be updated and the report reissued for consideration with the Financial Statements at the additional meeting on 25th November 2021.

It was **RESOLVED THAT** the Audit Findings Report 2020/21 be noted and received.

21/07 STUDENTS' UNION ACCOUNTS

A report was received on the Annual Report and Financial Statements for the year ended 31st July 2021 (circulated, document Nov 21/5).

It was noted that the accounts were independent of the College Financial Statements with support being provided by the Finance Team.

The accounts showed a deficit position for 2020/21.

It was highlighted that there had been expenditure on equipment.

Discussion'/feedback points included:

Oversight

It reported that the SU held regular student meetings with support from staff. Actions were agreed at the meetings and then referred for consideration by the SLT.

It was confirmed that it was a cash accounting system.

It was **RESOLVED THAT** the draft Annual Report and Financial Statements for the Students' Union for the year ended 31st July 2021 be noted and received.

Mrs A Autherson left the meeting.

21/08 RISK MANAGEMENT**8.1 Annual Risk Management Report 2020/21**

The Committee considered the Annual Risk Management Report 2020/21 (circulated, document Nov 21/6).

Highlights included:

- annual review of the Risk Management Policy, approved by the Corporation in December 2020;
- senior leaders have driven a risk-based approach across all College operations;
- regular updates to the Board and Committee;
- analysis of categorisation of risks for 2020/21 and comparison with 2019/20 and 2018/19 (details provided).

There had not been any significant movement but the report highlighted where additional controls were considered necessary.

Discussion points included:

- it was a comprehensive and detailed report
- Risk Ref 3: failure to achieve learner numbers that secure income targets

Should this remain classified as a significant risk given the improvement in learner numbers

It was suggested that it was necessary to contrast the position with that of other colleges and whether the RAG rating should change throughout the year.

It was advocated that the report captured the position at the time of reporting.

It was proposed that to give greater assurance detail could be included regarding how the residual risk changed throughout the year. Discussion of this suggested there would be a need to look at the residual scores and policy.

It was suggested that to include 'future' in the risk would perhaps address the issues. i.e. failure to achieve future learner numbers that secure income targets.

- Risk Ref 16: failure to ensure the ongoing financial viability of the college, leading to a failure to meet the requirements of the Bank and LGPS and moving the College into the Insolvency Regime. Anything that could/should be done to address residual risk. Should this remain classified as a significant risk given position.

It was suggested that it was necessary to link this with other associated risks, e.g. those about income. It was advocated that it also aligned with points such as the utilisation of resources.

It was advocated that it would be hard to amend this risk category if following the policy. It was important to consider issues such as the potential for major capital investment and the impact of this on the 'going concern' status. It was important to get the balance right, and ensure that the correct level of resources was allocated to mitigations.

It was agreed that the suggested minor addition to Risk 3 should be included for next year and more consideration be given to Risk 16.

It was **RESOLVED THAT** the Risk Management Annual Report 2020/21 be approved.

8.2 Strategic Risk Register 2021/22

The Vice Principal Finance and Resources reported on the Strategic Risk Register 2021/22 (circulated, document Nov 21/7).

It was confirmed Strategic Risk Register had been reviewed and updated for 2020/21.

Three risks had been added to reflect the Strategic Plan and five risks had been removed to minimise duplication, bringing the total number of risks to 26 (2020/21: 28).

Detail was provided.

Structural & format changes included:

- Actions and updates included on a separate Action List. The number of pending actions relating to each risk were shown on the Strategic Risk Register.
- Relevant KPIs were included within the list of controls, with reference to where these were reported. Actual figures were not included, to ensure that the register focuses on strategic risk and controls and avoids operational detail.
- Risk categorisation is clearer, and columns would be added to show previously reported residual risk throughout the year. This was an alternative presentation to the 'Direction of Travel' indicator previously included following an internal audit recommendation.
- Treatment of risk had been added based upon the residual risk, in line with the Risk Management Policy

Discussion points/feedback included:

The presentation was much clearer, but it was suggested that the inherent and residual risks be identified by initial (L= Low, S = Significant etc.) rather than the words written vertically.

Risk 22: Failure to comply with Health & Safety legislation and Environmental Health legislation and meet statutory requirements – was the assessed risk accurate (contingency and housekeeping)?

Was the inherent risk score overly generous? This is an important risk and the impact could be significant.

It is a highly regulated area, which without sufficient mitigation could result in litigation.

Suggested points included:

- that this risk could be highlighted RED as an *exception*, detailing underpinning contributors to the score.
- consider the nature of the college and if risks were more prevalent as a result.
- consider previous years H&S issues (if any) to inform assessment but be careful not to assume.
- have an exceptional 'significant' outside of the scoring.
- increase inherent/residual risk scores.

It was **RESOLVED THAT**, subject to the amendment to Risk 22 on the basis of the discussions, the Strategic Risk Register 2021/22 be recommended for approval by the Corporation.

8.3 Risk Management Policy

The Vice Principal Finance and Resources reported on the Risk Management Policy (circulated, document Nov 21/8).

It was confirmed all deletions are in red text, and additions are highlighted in green.

The majority of the updates are formatting changes, such as adding text to a table, or the deletion of duplicate information

It was suggested that if possible, acronyms without explanation should be avoided.

It was **RESOLVED THAT** the Risk Management Policy be recommended for approval by the Corporation.

20/09 AUDIT COMMITTEE ANNUAL REPORT 2020/21

The Committee considered the draft Audit Committee Annual Report 2020/21 (circulated, document Nov 21/9).

The Post- 16 Audit Code of Practice and the Terms of Reference of the Audit Committee require that an annual report on the work of the Committee be produced for the Corporation.

The report detailed

- Membership and attendance data, with average attendance of 87% for the 2020/21 year.
- Consideration of six internal audit/advisory reports, findings and recommendations
 - 10 recommendations (high, medium or low) compared to 12 in 2019/20.
- Updates on progress against audit recommendations.
- Risk Management - consideration and discussion of risk management.
- Internal Audit Service assurance opinion.
- Financial Statements and Regularity Auditors opinion.
- The Audit Committee's opinion on the adequacy and effectiveness of the College's arrangements, its framework of governance, risk management and control, and its processes for securing economy, efficiency and effectiveness.

Discussion points/feedback included

- Priorities for 2021/22 – includes COVID, consider changing the detail
- Include something around the expected challenges for this year, the financial position, learner numbers, growing income base, i.e. be more specific around plans for the future.
- Inclusion of detail regarding IA plan/deep dives, overall financial risks and strategic plan.
- Monitor progress: finance/strategic plan/infrastructure investment
- Is a backward-looking report but must bridge to the forthcoming year, must reference management of risk.
- Consider the audience: Corporation/Funding Body, does the report add to what is known.
- If details commitments for 2021/22 ensure that they can be achieved.

It was **RESOLVED THAT** considering the feedback, the Chair consider revisions to the Annual Audit Committee Report 2020/21 and for it to be considered further at the additional meeting of the Committee that would be scheduled for 25th November 2021.

FOR INFORMATION

20/10 INTERNAL AUDIT

10.1 Annual Internal Audit Report 2020/21

Mr Clark reported on the Annual Internal Audit Report 2020/21 (circulated, document Nov 21/10).

The report concluded that the auditors were satisfied based on the work undertaken and the implementation of previous audit recommendations that they were able to provide **reasonable** assurance that the College's systems of internal control, governance and risk management were operating adequately and effectively.

In their opinion, the College had adequate and effective governance, risk management, and systems of internal control in place to manage the achievement of its objectives and in securing economy, efficiency and effectiveness of College resources.

It was confirmed that a "reasonable" opinion was the best that could be achieved.

Overall number of recommendations (10) was low against the average of 19.

It was commented that the report provided a good level of assurance.

It was **RESOLVED THAT** the Internal Audit Service Annual Report 2020/21 be noted and received.

10.2 Progress against the Internal Audit Annual Plan 2020/21

Mr Clark presented a verbal update on progress against the Internal Audit Plan 2021/22

It was confirmed that none of the reviews had yet been completed.

It had been necessary to reschedule the planned IT security review. Explanation was provided.

Discussion points included:

The planned schedule of reviews and the scheduled Committee dates for reporting. It was noted that the plan was 'back-end loaded'

It was suggested that the planned schedule be further reviewed with a view to completing some of the reviews sooner than was currently planned.

It was **RESOLVED THAT** recognising the points raised regarding the slippage in delivery of the plan, the progress report against the IAS Annual Plan 2020/21 be noted and received.

21/11 PROGRESS AGAINST THE AUDIT RECOMMENDATIONS

The Vice Principal Finance and Resources presented a report which set out progress against audit recommendations (circulated, document Nov 21/11).

The report contained those recommendations arising from the audits completed in 2020/21.

Discussion/feedback points included:

02.20/21 Student Journey – 16-18 Learner Recruitment and Retention – functionality of MIS

It was confirmed that other systems used within the sector included Pro-Monitor and Pro-Achieve.

It was **RESOLVED THAT** the Progress Against Audit Recommendations report be noted and received.

21/12 VALUE FOR MONEY

The Vice Principal Finance and Resources presented a report (circulated, document Nov 21/12) which provided details of key activities that had been undertaken over the previous year with the aim of securing value for money.

The key objectives of the policy were confirmed.

Key actions taken during the year included:

- Annual review of all major contracts.
- Continuation of accommodation strategy works.
- Planned preventative maintenance and capital programme projects aimed at reducing recurring revenue costs or emergency repair costs including replacement of inefficient equipment.
- Review of all vacancies:
 - Two newly vacant positions have not been replaced on a like for like basis.
 - All student facing roles are reviewed for hours requirement based upon current student numbers.

Discussion/feedback points included:

Consider the inclusion of values in the report

It was agreed that this would be considered for the next report.

It was **RESOLVED THAT** the Annual Report on Value for Money 2020/21 activities be noted and received.

21/13 GIFTS AND HOSPITALITY

The Disclosure of Gifts and Hospitality document was received (circulated, document Nov 21/13).

It was noted that the information on the requirement to declare the receipt of gifts or hospitality was contained within the Corporation Standing Orders, Financial Regulations and Staff Handbook.

It was reported that there were no declarations of gifts or hospitality received.

It was **RESOLVED THAT** the Disclosure of Gifts and Hospitality update be noted and received.

21/14 DEEP DIVE**14.1 Income Strategy, including diversification**

- Sources include the Disability Support Assessment centre (DSA), respite and rental income
- Rental income is now impacted by the limited space on site
- Respite bookings are on hold
- The College is actively looking for new income streams
- The ability to generate commercial income will form a key part of the site development feasibility study, which is a cornerstone of the new strategic plan
- Access Centre income and profitability have been significantly above expectations in 2020/21. Positive moves by Hereward have included expanding capacity and 'customer/ student' responsiveness and an improved website.
- The DSA Sector is under governmental review and there is a proposed tender to look at a new procurement model. Hereward has signed up to be part of a tender bid with the National Network of Assessment Centres (NNAC).
- Knowledge and expertise developed within the Access Centre and the Technical Resources department may give Hereward the opportunity to collaborate in a government project that intends to invest up to £1 million in 2021 to 2022 to develop a new Centre for Assistive and Accessible Technology. Kate O'Leary and Paul Cook will be attending a meeting regarding this on Nov. 17th
- Due to the increased student numbers, space on the site is limited and impacting on the College's ability to generate rental income
- Respite bookings are on hold until the College is comfortable that bookings will not disrupt the residential students.

Discussion/feedback points included:

When looking at income streams are benchmarks for rate of return considered or just any income? This was considered a good point, however at this stage it is about the approach and being not for profit.

It was suggested that the College would not be comparable given its specialism. It was necessary to ensure that activities were in line with the College mission, but not just for the sake of it; e.g. respite would be in line with mission, but high risk (e.g. CQC).

Mr Oxtoby left the meeting at 11.45.

The need to focus on core business and within charitable objectives was emphasised. Consider contribution basis.

DSA – assurance about achievement. Recognise having overachieved previously, but future risk needs to be acknowledged.

It was reported that it was hoped that there would be more clarity about the situation in time for the when the Board would consider the 2022/23 budget in June 2022.

The Chair noted that the Committee had been in session for three and half hours and on the basis that an additional meeting was to be scheduled for 25th November suggested that the meeting close with the outstanding business considered when the Committee re-convened.

The Committee further noted the significant learning curve associated with the financial statements audit and the significant loss of expertise.