

HARLOW COLLEGE FURTHER EDUCATION CORPORATION

JOINT AUDIT & RESOURCES COMMITTEE MEETING

Minutes of the meeting held on Thursday 3 December 2015

Membership	*P Bartlett (Chair)	E Johnson
	*N Allen	*B Spencer
	*J Bedford	*K Spencer
*denotes present	*J Breen	*P Taylor
	*M Coleman	*P Whitehead
	A Durcan	
In attendance	H Catchpool, RSM UK P Goddard, Scrutton Bland M Stokes, Deputy Principal L Turner, Deputy Principal A Phillips, Executive Director – Finance S Appleby – Executive Director – HR (item 15 only) D Sheridan, Clerk to the Corporation R Lucas, Deputy Clerk to the Corporation	

9 Chair for the Joint Meeting

P Bartlett was elected as the Chair for the joint meeting.

10 Apologies for Absence

Apologies for absence were received from E Johnson and Nick Cattini, RSM UK.

11 Declarations of Interest

P Taylor declared that the company he works for employs an apprentice through Harlow College.

12 Minutes of the Previous Meeting

The minutes of the joint Audit and Resources Committee meeting held on 3 December 2014, previously agreed by each Committee, were noted by the Audit and Resources Committees.

13 Audit Findings Report

13.1 To receive, consider and approve the Audit Findings Report 2014/15 for recommendation to the Corporation

The Audit and Resources Committees received and considered the draft Audit Findings Report 2014/15 for recommendation to the Corporation, presented by H Catchpool from RSM UK (formerly Baker Tilly).

H Catchpool informed governors that although there are a few outstanding matters and the audit work is not quite as far progressed as initially hoped for; there are no anticipated modifications to the financial statements or regularity opinions. H Catchpool also confirmed that no issues with propriety had arisen during the audit.

The Committees noted the key areas of the audit focus as detailed in Section 2 of the audit findings report and the response of the auditors, presented by H Catchpool, as follows:

1. Management override of controls – there have been a number of late journal postings which, in some cases, have been difficult to track. With the exception of this, RSM UK did not note any issues.
2. Income recognition – a key observation is that income is being recognised more on a cash basis and as it is received rather than based on income entitlement. This should potentially have an impact on the information the Resources Committee and Corporation receive in the management accounts, however, the College recognises the income that has actually been received rather than what it potentially could be and this works better in terms of budgetary control. Regular information is presented to Governors on what income is still potentially achievable. There is a training need for teams who are managing externally funded contracts in terms of drawing down income. No further major or minor issues were identified.
3. Going concern – an initial review was completed at the planning stage of the audit and no significant issues were identified. The final review needs to be completed to confirm this opinion.
4. Accommodation strategy – work has commenced on the Advanced Manufacturing and Engineering Centre project and no issues were identified. A judgement was been applied to the impairment of Building H with the building given a net impairment value of £1.1m. The impairment of Building H will not affect the 2014/15 accounts but will have an effect on the 2015/16 accounts, in which Centre under construction can be recognised. The net fixed asset value of the College has decreased. RSM UK's work on this needs to be finalised and is dependent upon the going concern work.
5. Pension scheme liabilities – no significant issues were identified. There will be, as predicted, a significant negative figure in the accounts for pension scheme liabilities, in line with most other educational institutions this year.
6. Joint tenants – the amount of inter-company debt has been increasing, with the value of the loan going up whilst the value of the buildings is going down. The College is working with RSM UK's tax team in order to find the best solution to this and will shortly be in communication with HMRC. The leases on the buildings expire in 2017 and the College could face a tax

exposure risk. Some options have been explored with mitigation options against a VAT bill. The College will continue to work with RSK UK to resolve these issues.

7. New IT system – the work on this area still needs to be concluded by RSM UK.
8. Regularity review – no significant issues were identified. Governors noted that the scope of work had changed and a limited opinion has been provided. A few points of observation were raised.

The Committees noted that no audit, accounting and regularity issues were identified during the audit as stated in Section 3 of the report.

Governors noted, as per Section 4 of the report, there had been a number of journals identified which have resulted in adjusted and unadjusted movement in the management accounts and financial statements during the period of the audit. Most of these have been for reclassification purposes. The largest debtor is the £2.6m inter-company debt however this balances out when the accounts are consolidated. A discussion was held around the College's policy for depreciation and A Phillips will write a position paper on this for Governors.

Section 5 confirmed that no impropriety issues were identified during the audit.

Section 6 – significant deficiencies in internal control. H Catchpool reported that this section contains observations, recommendations and enhancements rather than any significant deficiencies. These are still in the process of being finalised, however H Catchpool pointed out the following as most significant:

1. Bank reconciliations – RSM UK are reporting eight missing bank reconciliations during the audit period, however there is some disagreement with the College on this. A number of documents are yet to be returned to the College and it was agreed that in future documentation would be provided electronically to avoid this situation arising again. It is possible for the College to re-run bank reconciliations for any given period of time.
2. Journal postings – this presents a risk to individuals and to the College if money is being moved around frequently.
3. Purchase authorisation and invoice payment – an invoice raised in error had then been paid in error where a leasing agreement had already been set up.

H Catchpool reported that the auditors had experienced some difficulties during the course of their work and that their final review of the financial statements was being conducted today (Thursday 03 December 2015). It was agreed by the Committees and by H Catchpool that the section on significant difficulties identified during the audit would be removed from

the audit report as the issues raised in this section had been noted. H Catchpool also confirmed that the wording under accounting disclosures would be amended. She thanked A Phillips, D Morgan and the finance team, supported by M Stokes and K Spencer, for their help and support during the audit and this would be documented in the audit report.

Section 8 detailed the adjustment to the surplus figure to take into account the exceptional restructuring costs.

The Committees noted the audit fees set out in Section 9 and noted RSK UK's independence in conducting the audit.

It was noted that the audit work conducted on the teachers' pension scheme did not result in any issues being identified.

The Audit and Resources Committee approved the draft Audit Findings Report for 2014/15 however recognised that this will not be the final version which will be presented for approval at the Corporation meeting on 10 December 2015 as some areas need to be finalised by RSM UK.

13.2 To receive and approve the Letters of Representation for recommendation to the Corporation

The Audit and Resources Committees received and considered the draft Letters of Representation for recommendation to the Corporation on 10 December 2015. RSM UK confirmed that they are standard letters and no specific representations have been sought by RSM UK. It is not envisaged that this will change when the final version of the Audit Findings Report is received.

The Audit and Resources Committee approved the draft Letters of Representation and recommended them to the Corporation for approval and signature at the meeting on 10 December 2015, subject to no changes being made.

14 Annual Report and Financial Statements for 2014/15

The Audit and Resources Committees received and considered the report of M Stokes on the annual report and the financial statements for 2014/15.

M Stokes informed Governors that the financial statements should give the College a financial health rating of good however the SFA have currently assessed the College's financial health as satisfactory and is monitoring the College's monthly management accounts.

A general discussion was held around the annual report and financial statements and the following points were noted:

- Page 6 – the operating surplus is £644k.
- Page 9 – the number of staff has reduced.

- Page 110 – the College’s top risks and mitigating actions are included.
- Page 16 – Governor membership and attendance details are listed.
- Page 23 – the independent auditor’s report confirms that the College is not in breach of any of the points listed.
- Page 35 – a salary band scale is missing and the information disclosed should exclude pension contributions.
- Page 36 – the paragraph commencing “*This committee approved*” needs to be removed.
- Page 56 – related party transactions need to be included.
- Page 13 – the College has specialist HR legal advisors based in Edinburgh who were selected through a retainer process.
- Page 15 – M Prodger is Chair of the Search and Governance Committee and not the Audit Committee. This will be amended.

P Bartlett provided managers with a copy of the financial statements marked with his comments for review.

The Audit and Resources Committees approved draft annual report and the Financial Statements for 2014/15, subject to the amendments listed above and the statements being finalised with a view to recommend them to the Corporation on 10 December 2015.

15 Human Resources Annual Report 2014-2015

The Audit and Resources Committees received and considered the Human Resources Annual Report for 2014 – 2015 presented by S Appleby, Executive Director - HR Services. Governors noted that the period contains the key HR KPIs and relates to the last academic year.

Governors noted that total sickness absence levels have increased slightly to 257 days however this has been mostly short-term sickness. Long-term sickness has reduced by 99.5 days compared to last academic year. The CIPD report is used for benchmarking (the Association of Colleges data is currently being collected) and the College’s sickness rates is below the public sector benchmark. The average number of sick days per employee at the College is 9.37 days.

The sickness absence trends are consistent and the College is looking at mechanisms to reduce sickness absence levels. The College has changed its occupational health provider and now has access to practitioners as well as advisors. The process of threshold meetings and improvement notices were highlighted and as a result of an internal audit recommendation, the speed of return to work meetings has been addressed with managers. A health and well-being programme has been implemented and monthly newsletters are sent to all staff.

Staff turnover is reasonably stable and HR collect and monitor exit data.

Employer relation cases remain stable however there has been an increase in the number of grievances lodged with HR. Seven out of the eleven grievances,

however, were not upheld. These cases are being reviewed and analysed and ways to reduce the number of formal grievances are being looked at.

Governors were given the opportunity to ask questions and the following points were raised and noted:

- During 2013/14 there were no reported cases of sickness due to mental ill health however during 2014/15 this has increased. S Appleby reported that this is partly due to the way in which it is reported and often depression, anxiety and stress could be classified as either stress or mental ill health. It can also be that sickness for stress related issues progresses to mental ill health and therefore more is now recorded in this way. HR records sickness as per the doctor's certificate when one is available. Absence due to mental ill health is predominantly long-term sickness cases.
- There is a need to ensure that employees are supported through any period of sickness in particularly mental ill health and some awareness-raising training is needed for managers. Increased awareness for employees of mental ill health could have led to the increase in reported cases.
- The cost of sickness in terms of real money is unknown, however long-term sickness has a cost if agency workers are used and this can be an expensive option.
- 65% of leavers had not given a reason for leaving. Often HR knows the reasons but if the information is not disclosed by an employee, it cannot be recorded. A strategy on how to capture this information is being developed. Each employee is offered a meeting with HR with an exit questionnaire before leaving, however, not everyone will take up this opportunity,
- Teaching is now more challenging and across the education sector there are significant issues in recruiting to the teaching profession.
- Addressing performance issues can lead to an increase in sickness absence and the College acknowledges that it is key to treat these people with respect. However, if the College is not the right organisation for an individual, a supported exit route will be explored.
- It was mostly front line delivery staff who were off sick due to stress or mental ill health.
- The College has been implementing initiatives such as mindfulness and resilience training to help address these issues.
- It was suggested that more information on filling posts should be tracked, such as the quality of individuals and qualifications on entry alongside the time taken to fill the posts.

The Audit and Resources Committees thanked S Appleby for the detailed report and noted the Human Resources Annual Report for 2014/15.

The Joint Audit & Resources Committees meeting ended at 10.30 am.