

HARLOW COLLEGE FURTHER EDUCATION CORPORATION

JOINT AUDIT & RESOURCES COMMITTEE MEETING

Minutes of the meeting held on Thursday 05 December 2019

Membership	*P Bartlett (Chair) J Bedford J Breen	*R Levy *L Lin *B Spencer
*denotes present	*C Chatt A Durcan *E Johnson	K Spencer *P Taylor
In attendance	N Cattini, RSM UK P Goddard, Scrutton Bland W Allanson, Deputy Principal P Whitehead, Vice-Principal D Morgan, Executive Director – Finance & Facilities R Lucas, Head of Governance	

34 Chair for the Joint Meeting

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

35 Apologies for Absence

Apologies for absence were received from J Bedford, J Breen and K Spencer,

36 Declarations of Interest

E Johnson declared that he is an Essex County Councillor.

C Chatt declared that he is a staff governor.

37 Minutes of the Previous Meeting

The minutes of the joint Audit and Resources Committee meeting held on 06 December 2018, previously agreed individually by the Audit Committee and the Resources Committee, were noted at the meeting.

38 Audit Findings Report

38.1 To receive, consider and approve the Audit Findings Report 2018/19 for recommendation to the Corporation

The Audit and Resources Committees received and considered the draft Audit Findings Report 2018/19 for recommendation to the Corporation, presented by N Cattini from RSM UK.

N Cattini informed the Committees that the audit scope and timetable was unchanged and that the report will be finalised within the next week.

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. N Cattini highlighted specific sections, as follows:

- Going Concern:

N Cattini highlighted the College's assessment of being a going concern and reported that there are no issues with the College's assessment.

Governors' attention was brought to covenant compliance particularly around test 1, and how there was a possibility that this covenant could have been breached.

Throughout the audit, as adjustments were made to the accounts, the outturn for test 1 moved between 1.4 and 1.5 against a target of 1.4.

D Morgan confirmed that the bank has calculated test 1 as 1.58 based on the draft financial statements sent to the bank. P Taylor asked if this has been received in writing, however D Morgan confirmed that this is based on the bank's interpretation and the final figure will be agreed once the signed financial statements are received by the bank. There is no specific guidance from the bank around how the test is calculated and no details as to how "earnings" is defined. The College is in early negotiations with the bank for next year around the covenants and how they are calculated.

N Cattini highlighted that if the jet had not been gifted to the College, the covenant would have been breached. This poses a risk to the College which could potentially be an issue for next academic year and that it will need to be addressed before 31 July 2020. N Cattini highlighted that the potential breach needed to be stated in the financial statements.

R Levy asked if the covenants were standard across the sector. D Morgan confirmed that they are not and they are specific to each college, set by the bank. N Cattini highlighted that across the sector, they are often very brief with no real definition.

P Whitehead informed Governors that the bank covenants are reviewed on a rolling basis by management and projected going forward. They are tested and calculated on a quarterly basis and regularly presented to Governors.

P Whitehead highlighted that the format of the management accounts has been changed to provide a particular focus on cash generation which is closely linked to test 1 of the covenants.

Governors noted that there is a risk on the College's risk register regarding on-going financial health however the Audit and Resources Committees agreed that this risk should be expanded to incorporate bank covenants as well as financial health.

- Accommodation Strategy:

N Cattini reported that there has been a number of adjustments made, largely on the balance sheet and that there could be potential volatility if these were identified post year-end.

- Valuation of Donated Assets:

N Cattini reported that the College has used a prudent £250k valuation of the donated jet and that RSM UK's judgment was in the region of £300k - £400k. N Cattini confirmed that the value of the donated jet will be disclosed in the letters of representation.

N Cattini highlighted Section 3 of the report – significant audit, accounting and regularity issues identified during the audit and regularity work undertaken. Governors' attention was brought to the interest rate swap which needs to be reflected in the balance sheet and balance sheet presentational matters where a number of presentational adjustments have been made.

Governors noted the unadjusted / adjusted misstatements, as detailed in Section 4 of the report. N Cattini highlighted that the 16 – 18 budget adjustment of £30k has been incorporated in the updated financial statements. P Whitehead confirmed that this was linked to the College's growth case for Stansted Airport College and that there had been a late adjustment by the ESFA of seven learners equating to approximately £30k. The ESFA would not have adjusted the income if the College had not submitted a business case. P Whitehead confirmed that the College is monitoring the situation. P Bartlett asked is the surplus had reduced and it was confirmed that it had.

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

N Cattini highlighted two points raised in Section 6 – significant deficiencies and other matters in relation to internal control, as follows:

- Changes in supplier details:

N Cattini informed Governors that RSM UK will continue to raise and challenge the College's response to this recommendation. Management are referring to a reactive approach and control however RSM UK are pushing for a preventative control and a dual approval process. D Morgan confirmed that the accounting software system does not allow for dual authorisation. Management are confident with the controls in place and sample testing undertaken by RSM UK did not identify any issues.

P Taylor asked if the College has cyber insurance. W Allanson confirmed that a quote had been obtained however it was very expensive. P Taylor commented that if insurance is taken out, the College needs to address this recommendation further.

- Governance and Meeting Attendance:

N Cattini highlighted that this is an area of increased scrutiny and that if figures were looked at in isolation, a potential issue could be highlighted. N Cattini recommended that the Search Committee's approach to re-appointment be documented to highlight that attendance is reviewed before re-appointment is recommended to the Corporation. B Spencer, as a member of the Search Committee, reported that attendance is discussed by the Search Committee when considering reappointment and where appropriate, terms of office are reduced.

E Johnson asked if the meetings have a quoracy. It was confirmed that they do.

The Audit and Resources Committees agreed that this should be an agenda item at the Corporation meeting on 19 December 2019 and that P Taylor will make reference to this in his next Chair's update.

The Audit and Resources Committees agreed that additional disclosures should be made in the financial statements around the contribution Governors make between meetings.

N Cattini confirmed that the other two points raised in Section 6 were very minor points.

N Cattini confirmed that there are no other significant findings from the audit, as detailed in Section 7 of the report, with the exception of the gifted jet.

Governors noted Section 8 – uncertainties, risks, exposures, judgmental issues and going concern – and that most of this section had already been covered. Governors noted that the College will need to submit a Corporation Tax return for the first time this year. Governors also noted that there is a £20k VAT debtor on an old code which should be moved. Governors further noted that there was one member of staff recruited with a criminal record and that a DBS risk assessment had been completed prior to the DBS certificate being issued. N Cattini confirmed that there were no safeguarding issues here and that the factual circumstances had been reported in the report.

The Committees noted there had been no change to the audit fees as set out in Section 9 and noted RSM UK's independence in conducting the audit as detailed in Section 10, with a small change having been made in reference to "Making Tax Digital".

The Audit and Resources Committee approved the draft Audit Findings Report for 2018/19 and recommended it for full approval at the Corporation meeting on 19 December 2019.

38.2 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 19 December 2019. Governors noted the letters are standard with an additional disclosure around the donation of the jet.

The Audit and Resources Committee approved the draft Letters of Representation for 2018/2019 and recommended them to the Corporation for approval and signature by the Chief Accounting Officer and the Chair of Governors at the meeting on 19 December 2019.

39 Annual Report and Financial Statements for 2018/19

The Audit and Resources Committees received and considered the report of D Morgan, Executive Director – Finance and Facilities, on the annual report and the financial statements for 2018/19.

D Morgan thanked R Levy for his significant feedback on the financial statements sent through in advance of the meeting. The changes made and comments addressed can be found in the appendix at the end of these minutes.

Governors' attention was brought to the difference in the provisional results and the draft financial statements and Governors noted that the majority of this movement had been covered in the previous agenda item – Audit Findings Report. Governors further noted that the College has been much better in cash generation than originally forecast.

P Bartlett asked if there has been an increase in pension funding. D Morgan confirmed that there had been for this year due to the significant increase in LGPS costs however the TPS costs have remained the same.

D Morgan confirmed that both bank covenants have been met and the bank is satisfied with the outturn. The College will meet with the bank in February 2020 once they have received the signed financial statements and confirm the College's position at that point.

The College's financial health rating is a strong good however this is based on calculations used in last year's financial record submitted to the ESFA as this year's calculation has not yet been confirmed.

P Bartlett highlighted that a comparison of original budget, last forecast and actual position would be useful in the covering paper and D Morgan confirmed that this could be added into the report for the Corporation meeting on 19 December 2019.

The Audit and Resources Committees approved the draft annual report and the Financial Statements for 2018/19, subject to any final amendments and recommended them to the Corporation on 19 December 2019.

**Appendix to Agenda Item 39
Annual Report and Financial Statements for 2018/19
Feedback from R Levy – Changes Made and Comments Addressed**

- Page 7 Resources – Financial**
Figure changed from £16m to £17m.
- Page 7 Stakeholders**
“Airport” added in after “Stansted”.
- Page 8 Financial Performance – Financial Results**
Figure changed from £1.,228k to £1,357k.
- Page 8 Financial Performance – Developments**
Figure changed from £2,576k to £2,595k.
- Page 8 Financial Performance – Reserves**
The figures were taken from further down the financial statements in note 20.
- Page 11 Cash Flow and Liability**
Figure changed from £3,416k to £3,435k.
- Page 12 Key Risks Identified – Point 2**
Wording has been updated.
- Page 12 Key Risks Identified – Point 4**
LSS now changed to Learner Satisfaction Survey
- Page 25 Remuneration Committee**
The date is correct as originally stated.
- Page 33 Responsibilities of the Corporation of Harlow College**
The page number referred to in the first paragraph has been added in.
- Page 39 Statement of Total Comprehensive Income**
The figure originally provided in correct.
- Page 56 Maturity of Debt**
Wording updated.
- Page 59 Capital Commitments**
Added in 2019.
- Page 59 Lease Obligations**
Added in 2019.