

HARLOW COLLEGE FURTHER EDUCATION CORPORATION

JOINT AUDIT & RESOURCES COMMITTEE MEETING

Minutes of the meeting held on Thursday 06 December 2018

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

**28 Chair for the Joint Meeting**

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

**29 Apologies for Absence**

Apologies for absence were received from J Breen, C Chatt and L Lin.

**30 Declarations of Interest**

Eddie Johnson declared that he is an Essex County Councillor.

**31 Minutes of the Previous Meeting**

The minutes of the joint Audit and Resources Committee meeting held on 30 November 2017 were agreed by the Audit and Resources Committees, subject to one change on page 2 and were signed by Paul Bartlett.

**32 Audit Findings Report**

**26.1 To receive, consider and approve the Audit Findings Report 2017/18 for recommendation to the Corporation**

The Audit and Resources Committees received and considered the draft Audit Findings Report 2017/18 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 no modifications to the financial statements or opinions are anticipated.

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:

- Income Recognition - £52k of NCS income relating to courses run in summer 2018 has not been accrued and a clawback provision of £116k in relation to high needs funding which is reported to be not consistent with the calculation provided by Essex County Council for 2016/17. N Cattini reported that both figures have not been adjusted in the financial statements and representations for these will be sought. Paul Bartlett questioned that if the adjustments had been made, the College's surplus would have been higher and N Cattini confirmed that this was correct.
- Pension Scheme Liabilities – Governors were informed that there has been a significant increase in the current service cost and that potential reclassification is being looked into. Governors were informed that there were no further issues to report.
- Going Concern – N Cattini reported that RSM UK has completed all its testing satisfactorily and classified the College as a going concern.
- Accommodation Strategy – Governors were informed that there has been an accrual of costs in relation to Stansted Airport College and that an adjustment of £969k will be accrued and capitalised. A land value of £1.66m has been attributed to the land gift by Manchester Airport Group to Harlow College for Stansted Airport College. Governors noted that this is an educational value and not an open market value. B Spencer questioned the valuation and asked whether the figure is too high or a fair conclusion. N Cattini reported that the calculation used was not perfect however RSM UK has access to similar land valuations for 100 – 125 year leases and have used this to inform the valuation. D Morgan reported that the value will be depreciated over the life of the lease and that in 99 years' time, the valuation will be zero. After further discussion, D Morgan confirmed that an additional disclosure surrounding the land valuation will be included in the financial statements.

N Cattini reported that no significant audit, accounting and regularity issues were identified during the audit and regularity work undertaken.

Governors noted the unadjusted / adjusted misstatements, as detailed in Section 4 of the report and that the majority of misstatements had been adjusted and that the £94k non-teaching cost adjustment was presentational.

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

Section 6 – significant deficiencies and other matters in relation to internal control – Governors were informed of the four areas raised and noted that management had provided responses to each. In relation to journals, N Cattini asked whether something more could be incorporated into College processes.

P Bartlett highlighted that this is an area where fraud could happen and asked if there is a level of journal where there should be an enhanced level of approval. N Cattini reported that there is not a quick fix to this issue and that RSM UK will share with the College details of their own internal procedures. D Morgan reported that transactional processes are being taken away from her role which is moving more towards a reviewer role and that as the Executive Director, she is unable to sign cheques or make any banking payments.

Governors were informed that the actions arising from the report will feed into the College's audit tracker and audit recommendation monitoring processes.

Section 7 – significant findings from the audit – was noted and that adjustments had been made and incorporated in the updated financial statements. Paul Bartlett highlighted that the underlying deficit of £70k detailed in this section will change to an accounting (not a cash) surplus of £1.2m once adjustments have been factored in. Governors agreed not to make the adjustments and noted that the College's financial health remains as good and that both bank covenants are being met.

Governors noted Section 8 – uncertainties, risks, exposures, judgmental issues and going concern – and that 'making tax digital' will have an impact on all businesses and that advice should be sought in relation to growth in ancillary income.

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.

N Cattini thanked D Morgan and the Finance Team for their help and support throughout the audit.

The Audit and Resources Committee approved the draft Audit Findings Report for 2017/18 and recommended it for full approval at the Corporation meeting on 17 December 2018.

### **32.2 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 17 December 2018. Governors noted the points raised in the letters are standard items with the exception of the Stansted Airport College land valuation.

The Audit and Resources Committee approved the draft Letters of Representation and recommended them to the Corporation for approval and signature by the Chief Accounting Officer and the Chair of Governors at the meeting on 17 December 2018.

## **33 Annual Report and Financial Statements for 2017/18**

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 2017/18. Governors were informed that the financial statements reflect the findings from the external audit and reflect the provisional outturn presented to the Corporation at its meeting on 18 October 2018.

D Morgan highlighted the differences between the provisional results as seen by the Corporation and the draft financial statements. A general discussion was held around the annual report and financial statements and the following points were noted:

- There is a £1.2m accounting surplus however the College's underlying cash position remains as previously reported.
- Both bank covenants are met and this will be confirmed by the bank in January 2019.
- The College's financial health is a strong Good.
- There have been additional disclosures for land valuation and pensions. The equalisation of guaranteed minimum pension was discussed and D Morgan confirmed that the increase in Local Government Pension Scheme service costs has been followed up with Essex. The rationale for the increase was based on the average number of members in the scheme.

Governors were given the opportunity to ask further questions. P Bartlett queried the number of key management personnel as detailed on page 50. K Spencer reported that all Executive members are now remunerated within the bands detailed in the financial statements, following on from a pay award made to all staff. It was agreed that the wording or information should be amended in this section to add clarity to demonstrate that it is not an increase in staffing.

P Bartlett asked if the figures on page 52 detailing operating lease expenditure and figures on page 59 detailing lease obligations should match. N Cattini confirmed that these figures are based on adjustments that had been made.

A discussion was held around the figures contained on page 54 and whether they should be rounded to the nearest £1,000 as in all the other tables in the financial statements. It was agreed that these figures should remain as presented.

P Bartlett asked why the creditors' figures had been restated on page 55. D Morgan reported that RSM UK had requested that the creditors' balance to be reallocated and therefore 2017 figures were given as a comparison.

The Audit and Resources Committees approved draft annual report and the Financial Statements for 2017/18, subject to any final amendments and recommended them to the Corporation on 17 December 2018.