

HARLOW COLLEGE FURTHER EDUCATION CORPORATION

JOINT AUDIT & RESOURCES COMMITTEE MEETING

Minutes of the meeting held on virtually on Zoom Tuesday 6 December 2022

Membership	*Julia Fillyary	*Karen Spencer
	*Eddie Johnson	*Paul Taylor
	*Liz Laycock	*Michael Travers
	*Ray Levy (Chair)	*Dawn Turner
	*Rachel Miller	*Ed Whittle
	*Brian Spencer	

*denotes present

In attendance	Shachi Blakemore, Buzzacott Paul Goddard, Scrutton Bland Alice Walker, Scrutton Bland Will Allanson, Deputy Principal Paul Whitehead, Vice-Principal Deanne Morgan, Executive Director – Finance Ruth Lucas, Head of Governance
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1 Chair for the Joint Meeting

Ray Levy was elected as the Chair for the joint meeting.

2 Apologies for Absence

There were no apologies for absence.

3 Declarations of Interest

There were no additional declarations of interest.

4 Minutes of the Previous Meeting

The minutes of the joint Audit and Resources Committee meeting held on 21 June 2022 were agreed as a true and accurate record and were signed remotely by the Chairs of the Audit and Resources Committees.

5 Audit Findings Report

5.1 To receive, consider and approve the Post Audit Management Report 2021-2022 for recommendation to the Corporation.

The Audit and Resources Committee received and considered the Post Audit Management Report 2021-2022, presented by Shachi Blakemore, Buzzacott.

Shachi Blakemore confirmed that the status of the audit is complete and thanked Deanne Morgan and the finance team for their work and careful

preparation which has ensured that the audit started and completed on time, with all requested information being readily available to the audit team.

Governors were informed that audit has clean unqualified opinions for the financial statements and regularity assurance.

Shachi Blakemore reported that a note is required to be added into the financial statements around the Office for National Statistics (ONS) reclassification of colleges as being in the public sector, as announced on 29 November 2022.

Shachi Blakemore confirmed that the College had complied with the Statements of Recommend Practice and the Accounts Direction.

Governors' attention was brought to the total comprehensive income for the year ending 31 July 2022 which stands at £11,279k. All colleges with the Local Government Pension Scheme (LGPS) liability posted a significant surplus. There was an assumption that the discount rate has increased significantly and the net asset position of the pension scheme is approximately £4m. In reality this will not materialise and the liability has been recognised as nil for this year. When the pension adjustment is taken out, the College has an operating deficit of £14k for the year.

Shachi Blakemore highlighted that the audit is required to assess if the College is a going concern by having sufficient money in the next twelve months to pay its liabilities. Buzzacott agreed with the College's going concern assessment and is satisfied that the College is classed as a going concern.

Governors were informed that there has been a late adjustment to one of the figures in the financial statements which has led to the increase in the final deficit position. As a result of this, one of the bank covenants has not been met however the bank have agreed to a waiver and this has been put in place. Buzzacott are satisfied with the waiver and have confirmed that the loans have been treated correctly in the accounts.

Governors were informed that two category B (best practice) recommendations have been raised and one category C (good to have in place if time allows) has been raised, as follows:

- Fixed assets – it was noted that the depreciation of IT assets was too low, to the value of approximately £170k. It is not proposed that this be adjusted and it does not affect the College's EBITDA (earnings before interest, taxes, depreciation and amortisation). The recommendation is that the College ensures depreciation is being correctly applied.
- Pay increments – it is recommended that the College ensures documentation is recorded on employees' HR records.

- Old creditors – it is recommended that these are reviewed and any historical creditors written off after an appropriate period of time.

Governors noted that the audit focused more on the figures in the financial statements than the controls the College has in place.

Governors were informed that based on the financial statements, the College's financial health rating for the year ending 31 July 2022 is good.

Governors noted the benchmarking data that was included in the Post Audit Management Report.

Shachi Blakemore provided Governors with further information on the ONS reclassification of colleges and them being retrospectively put back into the public sector. Any new borrowings will need ESFA approval and if a credit facility is to be used, ESFA approval will also be required. There was an anticipation that colleges would be able to reclaim their VAT as academies can do however the ONS have reported that this is a separate issue. There could be some pension scheme benefit if the Government guarantees no pension liability, as it currently does with academies, however this is not yet confirmed. There are also some new requirements around debt write off and the appointment of senior staff. ESFA permission will be required if buildings are being sold off and the funding will need to be earmarked for capital projects. There is a chance that colleges may get a better interest rate on lending. More guidance is expected to be released by the ESFA next year on the changes arising from the ONS reclassification.

Karen Spencer reported that a new Accounts Direction is expected to be published in Autumn 23 therefore the processes arising from the reclassification are likely to be two-year processes. The VAT relief position is a disappointment for the sector however the Association of Colleges (AoC) is lobbying for this and pension support.

Other issues currently affecting the sector are:

- the recruitment of personnel being critical and an issue that all colleges are struggling with.
- Rising utility costs.

A Governor thanked Shachi Blakemore for the audit report and the pragmatic and practical approach taken.

A Governor asked about the benchmarking data and how Buzzacott colleges appear to be outliers compared to the others. Shachi Blakemore reported that accounts are still being posted therefore there could be some movement in the figures and that the size of the institutions has an impact on the data. In addition, the benchmarking data does not indicate colleges' Ofsted ratings and does not equate financial success with how colleges are performing in terms of quality and standards. A Governor noted that there is a demographic difference, with a number of Buzzacott's colleges being in London and the South East. Shachi Blakemore confirmed that this is the

case.

A Governor noted that the number of cash days in hand has reduced from 118 in 2020-2021 to 83 in 2021-2022 and asked if this is something Governors should be concerned about. Deanne Morgan reported that the benchmark for the sector is 25 days and that in 2020-2021 the cash the College generated was used for capital improvements. The number of cash days in hand has therefore reduced however the reduced level is still strong for the sector.

Shachi Blakemore reported that there will be a couple of minor adjustments to the Post Audit Management Report before it is submitted with the financial statements and that Buzzacott will provide some wording around the ONS reclassification to be included in the financial statements.

The Audit and Resources Committee approved the draft Post Audit Management Report for 2021-2022 and recommended it for full approval at the Corporation meeting on 15 December 2022.

5.2 To receive and approve the Letter of Representation for recommendation to the Corporation

The Audit and Resources Committees received and considered the draft Letter of Representation for recommendation to the Corporation on 15 December 2022.

Shachi Blakemore confirmed that the letter is a standard letter.

The Audit and Resources Committee approved the draft Letter of Representation for 2021-2022 and recommended it to the Corporation for approval and signature by the Chief Accounting Officer and the Chair of Governors at the meeting on 15 December 2022.

6 Annual Report and Financial Statements for 2021-2022

The Audit and Resources Committees received and considered the report of Deanne Morgan, Executive Director – Finance, on the annual report and the financial statements for 2021-2022.

Deanne Morgan informed the Committee that the provisional results were reported to the Corporation at its meeting on 20 October 2022 however there has been some movement in the figures mainly due to adjusted apprenticeship income and other reconciliations which took place after the Corporation meeting.

Governors noted that the College's financial health rating up to 31 July 2022 is good.

Governors were informed that bank covenants were met when the provisional results were presented to the Corporation in October 2022 however due to the adjustment in apprenticeship income, one of them has not been met. A waiver has been agreed with the bank and is in place therefore there are no implications

for the presentation of the figures in the financial statements and the College is assessing itself as a going concern. The other bank covenant has been met.

Governors noted that the College's cash position has decreased due to capital expenditure which has taken place.

The biggest cost to the College is staffing and these costs have increased year on year.

Governors' attention was brought to the new declarations on page 36 on the financial statements which the Chair of Governors is required to sign confirming that the Accounting Officer has issued their statement of regularity, propriety and compliance with the Board.

Deanne Morgan thanked Ray Levy for his detailed feedback on the financial statements and confirmed that there are some presentation adjustments to be made, a pension asset to be added in and the ONS statement to be added in prior to the financial statements being published for the Corporation meeting on 15 December 2022. There will be no fundamental changes to the figures in the financial statements.

A Governor asked if the apprenticeship income adjustment should be looked at from an internal audit perspective this academic year. Paul Whitehead reported that there was an income and debtors internal audit in 2021-2022 however an audit focused on income received from funding bodies in this academic year would be useful. Management are moving forward and taking action where required this year therefore an internal audit towards the end of the academic year would be ideal.

A Governor asked if the apprenticeship income issue has occurred since the review of the provisional results by the Corporation in October and if there was some misunderstanding of the figures. Paul Whitehead reported that anomalies were found in the reconciliation of ESFA apprenticeship payments and internally reported figures. Some anomalies were with the ESFA reporting and some in the College's internal reporting systems which led to a £268k adjustment in the figures. The funding is complex and is spread over six contract lines and in some months there are 22 lines to reconcile. From issues identified, actions are being taken forward to reconcile the actual reported figures to the actual funding received from the ESFA. A Governor asked if this is action being taken going forward. Paul Whitehead confirmed that the anomalies were discovered at year-end therefore the actions are being taken by the College going forward. Deanne Morgan confirmed that the £268k was originally in the debtors line in the financial statements however this has been taken out of this line and the income adjusted accordingly. Karen Spencer reported that the anomalies with the ESFA reporting systems have been raised with the ESFA and the issues will also be raised in the meetings that the College has regularly with its ESFA Partnership Manager.

The Audit and Resources Committees approved the draft annual report and the financial statements for 2021-2022, subject to any final amendments, and recommended them to the Corporation on 15 December 2022, to be signed remotely by the Chair and Accounting Officer.

Key Points From The Meeting For Corporation:

1. Post Audit Management Report and the Letter of Representation

To receive and approve the Post Audit Management Report for the period to 31 July 2022 and the Letter of Representation

2. Operating and Financial Review 2021-2022

To receive and approve the Operating and Financial Review 2021-2022

3. Financial Statements 2021-2022

To receive and approve the Financial Statements 2021-2022