

HARLOW COLLEGE FURTHER EDUCATION CORPORATION

JOINT AUDIT & RESOURCES COMMITTEE MEETING

Minutes of the meeting held on virtually on Zoom Thursday 03 December 2020

Membership	*Paul Bartlett (Chair) *Julian Bedford *Jo Breen *Chris Chatt Anthony Durcan *Eddie Johnson	*Liz Laycock *Ray Levy *Brian Spencer *Karen Spencer *Paul Taylor
*denotes present		

In attendance	Nick Cattini, RSM UK Paul Goddard, Scrutton Bland Paul Whitehead, Vice-Principal Deanne Morgan, Executive Director – Finance & Facilities Ruth Lucas, Head of Governance
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1 Chair for the Joint Meeting

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

2 Apologies for Absence

Apologies for absence were received from A Durcan.

3 Declarations of Interest

E Johnson declared that he is an Essex County Councillor.

C Chatt declared that he is a staff governor.

4 Minutes of the Previous Meeting

The minutes of the joint Audit and Resources Committee meeting held on 23 June 2020 were agreed as a true and accurate record and were signed by the Chairs of the Audit and Resources Committees.

5 Audit Findings Report

5.1 To receive, consider and approve the Audit Findings Report 2019/20 for recommendation to the Corporation

The Audit and Resources Committees received and considered the draft Audit Findings Report 2019/20 for recommendation to the Corporation, presented by Nick Cattini from RSM UK.

Nick Cattini reported that the audit had been conducted exclusively remotely and thanked Deanne Morgan and the finance team for their hard work and responding to queries effectively and efficiently. Nick Cattini confirmed that despite not being

on-site, the original timescale for the audit was kept.

The Audit Findings Report was taken as read.

Governors' attention was brought to the accounting misstatements and Nick Cattini confirmed there were very few audit adjustments and once the £74k adjustment had been taken out, there was only £27,214 of adjustments, all of which are reflected in the final financial statements.

The Committees noted the key areas of the audit focus as detailed in the audit findings report and the response of the auditors. Nick Cattini highlighted specific sections, as follows:

- Income Recognition:

Nick Cattini reported that their work is almost completed in this area. The College received the final ESFA reconciliation the night before this meeting. Final checks will be completed following this meeting and no significant adjustments are anticipated.

- Pension Scheme Liability:

Nick Cattini reported that there has been a significant increase in the pension deficit from approximately £9.5m to approximately £15m. This is based on a number of actuarial assumptions which are outside of the College's control. This could have an impact on the College's cashflow and this has been reflected in the accounts. Nick Cattini confirmed that all their work in this area has been concluded.

- Donated Assets:

Nick Cattini reported that the College has used a £7.9m valuation for the ARU building on a depreciated basis. Nick Cattini confirmed that the College used a variety of sources to determine the value and confirmed that their work in this area has been concluded.

- Going Concern:

Nick Cattini informed Governors that additional disclosures have been included in the accounts.

A detailed discussion was held around the loans due for renewal in May 2021. Nick Cattini highlighted that all financial forecasts assume that the loans will be extended and assume a positive outcome. In the absence of any extension, there are questions around whether the College would be classed as a going concern. Nick Cattini informed Governors that despite this, the audit opinion is not qualified and wording to be used in the disclosures has been agreed with RSM UK and College management. Paul Bartlett highlighted it was understandable to bring this to Governors' attention.

Nick Cattini highlighted that there had been no changes to the original fee levels and confirmed RSM UK's independence.

Nick Cattini confirmed to the Committee that RSM UK will be signing off the financial statements and regularity audits with unmodified opinions within the next two weeks.

Governors were given the opportunity to ask questions.

Paul Taylor asked if the College could get a statement from the bank regarding the loans due for renewal in May 2021. Deanne Morgan confirmed that if formal discussions took place with the bank, fees would be incurred. The product offered would only be valid for three months and therefore break costs would be incurred. Currently the break costs would be £65k and the College cannot afford this. Formal discussions with the bank can start in February 2021.

Paul Bartlett highlighted that £65k was a large cost to incur to cover the issue raised in the audit.

Deanne Morgan confirmed that this is not unique to Clydesdale Bank. The College would have to pay to put the funding aside now and banks will not confirm anything in writing until a product is agreed. Eddie Johnson reported it was good to know that it was not just Clydesdale Bank and thanked Deanne Morgan for clarifying this.

Paul Whitehead confirmed that in conversations the College has had with the bank, the bank has given as much assurance as possible to the College. The issue faced is a timing issue as if the loans were due for renewal in February 2021 rather than May 2021, a new product would have been agreed and this would not have been raised as an audit issue. Paul Whitehead confirmed that despite this, statements need to be made which are appropriate to the risk at this stage, however the right decision had been taken not to incur the £65k break cost.

Ray Levy highlighted HMRC preferential status however this should not be an issue for the College but banks could charge more for loans. Deanne Morgan confirmed that the bank is comfortable with the College's asset base and value.

Paul Taylor asked about the donation of the ARU building being classed as red – high impact and whether this was due the valuation method used. Nick Cattini confirmed that it is classed as high risk as it is a significant valuation as a small percentage error in the valuation could have a big impact on the balance sheet and surplus. Nick Cattini confirmed that there was no issue with the valuation method used.

Paul Whitehead reported that the audit findings report and outcomes were very positive and thanked the finance team for their excellent work in challenging circumstances, with improved audit outcomes from previous years and all delivered on time.

The Audit and Resources Committee also thanked the finance team. Paul Bartlett reported that it was very impressive to have got to this stage at this time given the

circumstances and this was testament to all involved, including RSM UK.

The Audit and Resources Committee approved the draft Audit Findings Report for 2019/20 and recommended it for full approval at the Corporation meeting on 17 December 2020.

5.2 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 2020. Governors noted the letters are standard with an additional disclosure around the valuation of the ARU building.

The Audit and Resources Committee approved the draft Letters of Representation for 2019/2020 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 2020.

6 Annual Report and Financial Statements for 2019/20

The Audit and Resources Committees received and considered the report of Deanne Morgan, Executive Director – Finance and Facilities, on the annual report and the financial statements for 2019/20.

Deanne Morgan reported that the financial statements show that the surplus is in line with the figure reported to the Corporation at its meeting on 22 October 2020, the financial health remains good and both bank covenants are met. This will be confirmed by the bank at the end of January 2021 once they have received and reviewed the signed financial statements.

Deanne Morgan reported that the College generated £303k cash compared to the target of £227k and that the staff costs to income is under 70% despite the increased pension costs.

Governors' attention was brought to page 25 of the financial statements and the paragraphs that have been included in relation to going concern and COVID-19. Deanne Morgan reported that further details on the loans had been included, along with the College's intention to renew them in May 2021 and the break costs are also reported. Deanne Morgan also confirmed that the College had reduced its income plans to below contract values as this was more realistic and achievable.

Deanne Morgan reported that the £7.6m surplus was impacted due to the in excess of £3m increase in pension costs.

Deanne Morgan confirmed that the balance sheet position has increased and the value of the College has increased.

Deanne Morgan confirmed that she is working with RSM UK on the enhanced payment notes, final adjustments around Governor and Committee membership

will be made and a net debt disclosure will be added in.

Paul Bartlett reported that Ray Levy had gone through the financial statements in detail and provided feedback to management which gives the Committee assurance that they have been looked at in detail. Deanne Morgan thanked Ray Levy for this and confirmed that all his comments will be worked through and any amendments made will be reported to the Corporation at its meeting on 17 December 2020.

Paul Bartlett asked what the underlying carry forward figure is once all non-cash elements are stripped out and what the College's actual operational funding is going forward. Paul Bartlett suggested this would be useful to include in the report to the Corporation. Deanne Morgan confirmed that this could be incorporated into the management accounts going forward.

The Audit and Resources Committees approved the draft annual report and the Financial Statements for 2019/20, subject to any final amendments and recommended them to the Corporation on 17 December 2020.