



JOINT MEETING OF THE FINANCE AND GENERAL PURPOSES AND AUDIT COMMITTEES

Report: Minutes of the meeting held on Friday 26 March 2021
Author: Clerk
Action: Approve
Status: Open other than where marked confidential

Present: Chris Macklin (Chair of Audit Committee)
Martin Hedley (Chair of Finance and General Purposes Committee)
Andy Cole (Acting Principal)
Aneela Ali
David Brind
John Hogg
Sarah Stewart
Neil Weddle
Michael Wood-Williams

In attendance: Louise Coles (PwC)
Ivan Jepson
David Keetley
Claire McHaffie (PwC)
Keith Oxspring (Interim Finance Director)
Lucy Robson (RSM)
Chris Toon
Emma Moody (Clerk)
Suzanne Clark (Minutes)

JFA/10 Chair's welcome, apologies and conflicts of interest

It was agreed that the Chair of the Finance and General Purposes Committee, Martin Hedley, would chair the meeting for agenda items 1-6. The Chair of the Audit Committee, Chris Macklin, would then take the chair for the remainder of the meeting. Apologies were received from Simon Ennew.

No conflicts of interest were declared at this point. The Chair reminded members to declare conflicts as soon as they became aware of them throughout the course of the meeting. The Chair asked that it be noted that some governors and members of the Executive Team are directors of the College's subsidiary companies however there is no conflict of interest in the matters to be discussed.

JFA/11 Minutes of the Finance and General Purposes Committee meeting dated 29 January 2021

The minutes of the meeting held on Friday 29 January 2021 were agreed as a correct record.

JFA/12 Matters arising

The Chair confirmed that the KPIs for the Finance and General Purposes Committee have been completed and were presented to the Board at the Winter Conference. Additional KPIs have been added and it was recognised that KPIs would be subject to continuing development.

The Clerk confirmed that the annual cycle of business for the Finance and General Purposes Committee has been reordered.

It was confirmed that work required on the terms of the ESFA loan has been completed and there is an agenda item for this later in the meeting.

The Clerk confirmed that the Potential Impairment of Assets report was circulated to Audit Committee members then subsequently signed off by the Board.

JFA/13 February 2021 Management Accounts and Key Issues

The accounts were presented by the Interim Finance Director.

It was reported that since the accounts were produced, the threshold for AEB has been declared to be 90%. The net impact of this will be approximately £1.3m. The Interim Principal / CEO advised that the provider support threshold for the previous year was 68% having originally been set at 85%. Some colleges are reporting an impact of significant volume but this differs across the sector. There has been an indication that no business cases will be accepted as a challenge to the decision although there is no detail on this currently. The AoC are looking to challenge the threshold and MPs will be asked to support a movement from government. The ESFA are aware of the College's position and the potential impact of a clawback was discussed at the last Case Conference. If there was a need for additional emergency funding payments to support the repayment of AEB clawback this would commence when the previous loan has been repaid. In response to a question from a member, the Interim Principal / CEO advised that a discussion took place with the PMO team recently. Currently it is expected that emergency funding will be repaid and any additional loan repayments could start in March / April 2022.

A final position on the threshold could be some time away in light of the sector wide dissatisfaction. A member asked for confirmation that the threshold had been partially based on a collective return from colleges which would suggest that 90% was achievable indicating that they would be interested in the level of activity included within the College's return. The Director of Business Development reassured members that the College's mid-year estimates were based on a very pragmatic view and included a figure of 59% which was realistic at the time.

The Interim Principal / CEO advised that the AoC president has been in contact with colleges in relation to the campaign. There is a standard letter which each college has been asked to send to their MP to seek support for the challenge. The AoC will then trigger a national campaign. The Interim Principal / CEO advised that the standard letter will set out the overarching principles and then give the opportunity to provide a regional overview. The Chair felt that this was an additional material uncertainty that the Board should consider in reviewing the 19/20 accounts.

The Chair questioned the impact this could have on the College's financial health score. The Interim Finance Director advised that the College's financial health has not been modelled based on this position. It has however been factored into the going concern aspect of the financial statements. A member questioned whether there was a need to account for this at a worst-case scenario and asked whether the recent discussions to waive the right to an Ofsted RIMV needed to be considered. The Interim Principal / CEO recognised this as a very relevant point and gave assurance that the new Principal designate will be appraised of the developments and will be included in the discussion about the waiving of the Ofsted visit. The management accounts for March will reflect the new position.

The report was noted.

JFA/14 ESFA loan terms for final review and approval before recommendation to Board

The report was presented by the Interim Finance Director.

The Chair asked whether a resolution from the committee in relation to this. The Clerk confirmed that the loan agreement will go to the Board directly after the meeting for consideration and approval, receiving the recommendation to approve from this Committee. Pending approval there is a schedule of documents which require signing to give effect to the loan terms and its execution on behalf of the College.

A member of the Finance and General Purposes Committee noted his appreciation for the Interim Finance Director for the pace at which progress had been made in relation to property disposals. This was very much supported by the Chair.

The Committee approved the loan document for submission to the Board for review and signing.

JFA/15 Draft Budget 2021/22

The report was presented by the Interim Finance Director.

The Interim Finance Director confirmed that figures within the budget will be enhanced by £366k. At the time of preparing the budget it was expected that additional in-year funding received in respect of 16-18 learners would be deducted from the following year which is not the case. The Interim Finance Director explained that 16-18 funding is phased over the year. In all circumstances there are sufficient funds to get through the next 12 months. The paper does not include the potential AEB clawback of £1.3m which, as discussed earlier, would be taken as a loan. The Chair suggested that another scenario be added to the report to include the AEB position.

The Clerk advised that following discussion at the last ESFA case conference, there is an expectation that there would be a separate loan after the current loan is repaid, to manage the clawback situation. In the event of a loan there would be no impact on cashflow as repayments on a new loan would commence following full repayment of the original emergency funding. There will not be an immediate demand for the clawback to be repaid. A member indicated that they would welcome evidence that any new ESFA loan repayments would commence following repayment of the current loan. It was confirmed that the ESFA case conference at which this was confirmed was minuted.

The member highlighted some formatting issues on the appendices circulated as part of the report and asked for these to be rectified for the record.

Action: formatting error on schedule 3 to be rectified for College's records.

The report was noted.

JFA/16

Bad Debts Write Off

The report was presented by the Interim Finance Director.

The Clerk advised that the protocol for bad debts was agreed by the Finance and General Purposes Committee earlier in the year, and it was agreed that there would be a twice-yearly report to the committee to seek approval of any write offs. Bad debts will be brought to the committee in January and July each year for consideration.

A member questioned the follow up of commercial debts and asked for confirmation that the team have looked to revise and improve internal control procedures – identifying where something was a debt versus where the College was not entitled to pursue for payment because of, for example, lack of delivery.

The Interim Finance Director advised that debtor management had not been sufficiently robust in the past and this is an area where the policy provides for better control in the future. He advised that one of the previous debts is unique in its circumstances and confirmed that the arrangement is no longer in place. The Clerk highlighted that there were previously some issues between the College's MIS and finance teams and sought assurance that systems are now interlinked. The Interim Finance Director confirmed that invoices raised are now based on College data and there are much stricter controls in place. A member commended the work that has been done in this area and asked whether there are processes in place to ensure that where bad debts have been written off previously checks would be undertaken to avoid any repeated issues.

The Interim Finance Director advised that if the College has written off a bad debt he would be reluctant to deal with the person or company again but he did not believe there was a formal internal record of "bad payers". The Interim Finance Director indicated that he would take this question away and respond at a later date.

Action: Interim Finance Director to establish if College retains records of previous bad debtors and avoids re-engagement on this basis.

The report was approved.

Chris Macklin took over chairing the meeting.

JFA/17

Financial Statements 2020/21

The report was presented by the Interim Finance Director with input from the External Auditor.

The Chair advised that discussions earlier in the meeting all form part of the process in relation to the approval of the College's financial statements. He indicated that the committee would receive the financial statements, annual report of the Audit Committee, letters of representation and subsidiary accounts prior to determining whether the items should be approved.

The Chair felt that the reports given by the Interim Finance Director and the External Auditor had highlighted the salient points that members should be aware of. He stressed that the narrative within the statements was as important as the numbers. The Chair suggested that a seminar be organised for governors to give

a better understanding of pension contributions and how this is accounted for. A member advised that the committee have received draft versions of the statements a number of times. He felt that pension contributions were a key item with a significant impact on the accounts. He expressed a minor concern that this is not fully represented within the financial statements until a substantial way through the document, which was potentially under-estimating its significance. Other than this specific item he confirmed that he was comfortable with the statements. The External Auditor advised that some narrative has been added to clarify the increased deficit position highlighting that this could be found on page 21 of the statements.

A member agreed with all points made to ensure understanding of the material effects of pension contributions and asked whether the Interim Finance Director had any thoughts on presenting additional information to assist understanding. The Interim Finance Director advised that these items would be highlighted within the management accounts. The financial statements are presented in a specific way to meet regulatory requirements.

A member highlighted a possible error on page 47 of the statements. It was confirmed that this should read '(Deficit) / surplus before other gains and losses'. The statements will be updated.

The Clerk asked for clarification on the report from the External Auditor where it was indicated that staff numbers were different. The External Auditor confirmed that this was in relation to entire staff costs. It was stressed that some of this detail is sensitive and governors were assured that this section of the statements has been subject to scrutiny.

Annual Report of the Audit Committee

The report was presented by the Interim Finance Director.

The Chair confirmed that the report will be shared with the Board at the meeting later in the day. The report is a culmination of a number of things and highlights the work that has taken place to get to a sign-off position.

Letter of Representation

The letter was presented by the Interim Finance Director.

The Clerk highlighted that in the previous year, some changes were made to the letter of representation. This is a more standard letter which provided comfort to the auditors that all matters of relevance to the audit had been disclosed. The Chair stressed the importance of governors understanding what the signatories are being asked to sign off on.

The External Auditor confirmed that the letter of representation is a standard letter with the exception of the section including **THIS ITEM IS CONFIDENTIAL AND NOT FOR PUBLICATION**. There are no other modifications. The letter will need to be signed by the Chair and accounting officer. There are also letters of representation for each the subsidiary companies which are all standard letters.

Subsidiary Accounts

The subsidiary accounts were presented by the Interim Finance Director.

The Clerk confirmed that subsidiary accounts need to be signed on behalf of the individual directors of those companies and received by the Board of the College as sole shareholder.

JFA/18 **Audit Findings Report**

The report was presented by the External Auditor.

The External Auditor highlighted specific sections of the report on income recognition, pension liability, going concern, management override of controls and regularity. It was confirmed that there are no new regularity matters to be brought to the attention of the committee. The External Auditor also highlighted property impairment, subcontractor arrangements, control mechanisms and audit matters raised in prior years.

The Chair welcomed the report indicating that he had circulated a document earlier in the week. The HMFA are planning to publish a document on going concern which will set out auditor responsibilities. Whilst this is specific to the health sector, the Chair felt that many points would be pertinent to education. He felt that this would give governors an understanding of the auditor's responsibility in relation to going concern.

The Chair highlighted the creditor of £409k in relation to the historic ESFA audit still showing on the balance sheet. He asked whether, if this was removed, it had the potential to improve the balance. The External Auditor advised that any release would increase the profit position but would have a neutral cashflow impact as it is not included in the cashflow forecasts. The Interim Finance Director reiterated that this is an income and expenditure issue.

JFA/19 **Internal Audit Report – Financial Controls**

The report was presented by the Internal Auditor.

The Chair expressed his appreciation to the Internal Auditors for the report and the work undertaken in this area.

The report was noted.

JFA/20 **Self Assessment Questionnaire**

The report was presented by the Interim Finance Director.

It was confirmed that the questionnaire needs to be recommended to the Board for approval and authority for the Chair and Principal CEO (as accounting officer) to sign on the College's behalf..

The Committee approved the College Financial Statements for signature together with the letters or representation prepared by RSM and the Self Assessment Questionnaire. The Committee noted and approved the content of the Annual Report of the Audit Committee for presentation to the Board.

The Chair indicated that this would be his last meeting as Chair of the Audit Committee and expressed his appreciation for the work of the internal and external auditors. He was very complimentary of the professional relationship that has been maintained in supporting the College to reach its current position.

Lucy Robson, Claire McHaffie and Louise Coles left the meeting at 11.05am.

JFA/21 External Auditor Appointment

The report was presented by the Interim Finance Director.

A member highlighted a reference made within the RSM report in relation to a lack of documentation for the tendering process in their annual audit report and queried if this referred to this process. He indicated that Tenet had undertaken a full procurement process and value for money was considered as part of the tendering process. The Chair added that references were sought, benchmarking was undertaken and the process was fully documented.

The Interim Finance Director indicated that this reference within the RSM report was referring to a separate tender relating to student transport, not the appointment of external auditors.

Having considered the paper, the Committee agreed to recommend appointment of Mazars as external auditors to the Board for approval.

JFA/22 Any other business

The Chair asked that his appreciation for the support given to him in his role as chair by Neil Weddle, Darren Heathcote and Aneela Ali be noted.

JFA/23 Dates of next meetings

The dates of the next meetings were confirmed as:

Audit Committee – Wednesday 16 June 2021, 4.00pm

Finance and General Purposes Committee – Friday 28 May 2021, 10.00am

The meeting closed at 11.10am