

Kirklees College Corporation

## AUDIT COMMITTEE

### Minutes of a meeting held at 15:30-17:00 on 2 December 2019 at the Huddersfield Centre

Present: Dr A Williams Independent member (chair)  
 Dr A Conn Independent member  
 Mr M Pearmain Co-opted member  
 Ms L Precious Staff member

Attendance: 4/4 =100% KPI 80% Quorum: 3

In attendance: Ms M Gilluley Principal and Chief Executive  
 Ms J Green Clerk to the Corporation  
 Mr A McCulloch TIAA  
 Ms R Meara Executive Finance Director  
 Ms D Watson Grant Thornton  
 Ms K Doherty Grant Thornton

Item	Action/ Report Item
<b>CLOSED SESSION</b>	
<b>0</b>	<b>MATTERS RELATING TO THE COMMITTEE'S REMIT AND ANY ISSUES ARISING FROM THE AUDITS</b>
i	The chair noted that the purpose of meeting without management was to facilitate open dialogue between the Corporation and its auditors.
ii	A member asked Ms D Watson ("DW") of Grant Thornton ("GT") to explain a concern expressed in the GT report about the posting of journals. DW said, for practical reasons and due to a skills gap (which management was working to close), the Executive Director of Finance, Ms B Meara ("BM") occasionally posted accounting journals. As there was an inherent risk in operating that way, GT was required to flag it. GT had checked the journals BM had posted and no issues had been identified.
iii	DW shared positive feedback on the College's readiness for audit but said the College had been involved in some complex projects with accounting implications and some issues had come to light quite late in the day. A member emphasised the need for sign-off of the financial statements by the 31 December and DW said she did not anticipate any delay, as things had progressed substantially.
iv	Mr A McCulloch ("AM") of TIAA had no issues to raise on the internal audit side.
<i>15:50 Rebecca Meara and Marie Gilluley joined the meeting.</i>	
<b>PRELIMINARY ITEMS</b>	
<b>1</b>	<b>WELCOME AND INTRODUCTIONS</b>
i	The Chair welcomed everyone, in particular Staff Governor Ms L Precious, who had been co-opted to the Committee by Chairs' actions, temporarily filling the vacancy created by the resignation of Mr D Keeton. Introductions were made.

Item		Action/ Report Item
2	<p><b>APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST</b></p> <p>i No apologies had been received.</p> <p>ii All confirmed that they had no direct or indirect interest in any way in the business to be transacted at the meeting, which they were required by the Instrument of Government or otherwise to disclose, other than those matters previously disclosed.</p>	
3	<p><b>APPROVAL OF MINUTES OF THE PREVIOUS MEETING</b></p> <p>i <b><u>RESOLVED:</u></b></p> <p>(i) <b>To approve the minutes of 23 September 2019 as an accurate record.</b></p>	
3(i)	<p><b>MATTERS ARISING NOT ON THE AGENDA</b></p> <p>i There were none to discuss.</p>	
3(ii)	<p><b>UPDATE ON AGREED ACTIONS</b></p> <p><b><u>Item 31 – Internal Audit Reports</u></b></p> <p><u>Item 1: Whistleblowing Policy</u></p> <p>i This would be implemented as soon as a mobile phone number for Ms J Green (“JG”) was provided. Thereafter, promotion of the arrangements would take place.</p> <p><u>Item 2: Items for the April Committee meeting (rollover items)</u></p> <p>ii Review of the Fraud Policy and approval of a Chair of Audit role description would be on the agenda for the April Committee meeting.</p> <p>iii <b>Action:</b> April Agenda to include review of the Fraud Policy and approval of a Chair of Audit role description.</p> <p><u>Item 3: Engagement with other Audit Chairs/Committees</u></p> <p>iv The Clerk, Joanna Green (“JG”) had spoken to the Luminate Education Group’s Director of Governance at a Clerks Network meeting and raised the possibility of a joint training event in the new year, possibly involving other Yorkshire colleges at the Luminate Leeds campus.</p> <p>v <b>Action:</b> The Clerk will progress arrangements for an audit committee networking/training event.</p> <p>vi There were no outstanding actions.</p>	<p>JG</p> <p>JG</p>
<b>ANNUAL REPORTING 2018-19</b>		
4(i)	<p><b>MEMBERS’ REPORT AND FINANCIAL STATEMENTS 2018-19</b></p> <p>i The Chair reminded the Committee that Governors had a fiduciary duty to the College’s beneficiaries and were required to exercise reasonable care, skill and diligence in the preparation of the financial statements and members’ report.</p> <p>ii BM introduced the papers, saying the accounts were on track for formal sign-off; the audit close-down meeting took place on 11 November. Since then, adjustments had been posted to the financial statements as follows:</p> <p>iii As the Wheelwright Centre sale had completed, the College would post an</p>	

Item		Action/ Report Item
iv	<p>impairment reversal to reflect the actual value of the asset (based on a sale price) rather than the reduced value it had been given in the books.</p> <p><i>This matter is considered to be confidential at this stage and therefore the discussion is recorded in a confidential annex at the end of this document and marked <a href="#">Annex 1</a>.</i></p> <p><u>Key Headline Outturn Data</u></p> <p>BM referred members to a table of key headline data, drawing attention to the actuarial loss in respect of the pension schemes. She reminded the meeting that this reflected an increase in liabilities arising out of two national pension case judgements, which had impacted the whole of the public sector. DW also commented that a significant reason for the actuarial adjustment was a change to the assumed discount rate assumption used by the actuary from that assumed in the 2017/18 financial statements. MM said fortunately, the pension fund had made investment gains over the past three years which would offset some of the increase in liabilities so that future contributions would remain in line with the College's financial plan, increasing from April 2020 to 17% from 15.8%.</p>	Report Item 1
v	<p><b>Corporation report:</b> An actuarial loss reported in the <i>Statement of Comprehensive Income</i> in respect of the pension schemes was largely due to the impact of some recently decided tribunal cases. It will not affect the College's ability to meet its liabilities over the next 12 months, as the pension fund is well managed and has made some significant investment gains which will offset some of the increase in liabilities.</p>	
vi	<p><u>2018-19 Performance</u></p> <p>Referring to the amended <i>Statement of Comprehensive Income</i>, BM said the surplus before the actuarial adjustment had been £3.8m and, once the Restructuring Facility ("RF") grant was discounted, together with the £1.04m increase in non-controllable operating costs, the improvement in the 'controllable' operating position was £3.2m, i.e. the saving the College set out to achieve in its recovery plan.</p>	
vii	<p>Members recalled that the £3m EBITDA<sup>1</sup> budget had been revised downwards in February 2019. BM said since then, the forecast had been pulled back on track and it had outturned at £2.94, very close to the cash-based operating performance.</p>	
viii	<p>The net current assets position was much improved and BM said, on the basis of the budgets set for 2019/20 and what was known about the pension fund, there was nothing in the forecast to suggest that the College would not be a going concern, therefore the accounts had been produced on that basis.</p>	
ix	<p><u>Outstanding post-completion matters</u></p> <p>DW reiterated that, since the meeting papers were circulated, there had been significant progress on the post-completion matters and the risk of the College being unable to sign off its financial statements on time had much reduced.</p>	
x	<p>BM was of the view that the market value of the 125-year Pioneer House lease should not need to be recognised in the accounts and she was preparing a paper for GT, outlining her reasoning on this. DW said the only other outstanding matter was whether a disclosure must be made under 'Related Party Transactions' in respect of the Holmfirth Adult Education Centre, of which the Corporation was trustee.</p>	
xi	<p>The Chair thanked BM and her team for their work on the financial statements, which</p>	

<sup>1</sup> Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) is a measure of a business's operating performance which is used by the College in its financial planning and reporting.

Item		Action/ Report Item
xii	<p>were formally received. He reminded members that the Committee must consider the Going Concern report and the issues raised in GT's management letter before agreeing its recommendations to the Corporation.</p> <p><b><u>RESOLVED:</u></b></p> <p><b>(i) To receive the draft Members' Report and Financial Statements.</b></p>	
4(ii)	<p><b>GOVERNOR ASSESSMENT OF GOING CONCERN</b></p> <p>i BM had prepared a separate "Assessment of Going Concern" paper to assist the Committee in carrying out its assessment of whether the accounts should be prepared on the 'Going Concern' basis. She reminded members that the Corporation must consider the Further Education Insolvency Regime in the preparation of its financial statements.</p> <p>ii Having discussed BM's report, members concluded that, while there were still some significant challenges, such as falling HE income and the pressures on the Apprenticeship budget, the College was on a firmer financial footing than in recent years and could reasonably be expected to remain on target to achieve 'Good' financial health by 2022/23, in line with its recovery plan. The sale of the Wheelwright Centre had had a positive impact on cashflow, which would obviate the need to undertake more borrowing to fund the Pioneer House capital project.</p> <p>iii BM said there were no financial covenant compliance issues which might trigger clawback of RF funding. Members acknowledged the need for the Corporation to consider GT's sensitivity analysis on 'Going Concern' (still ongoing) before making its final determination.</p> <p>iv <b>Corporation Report:</b> Subject to any external auditor findings, the Corporation can be satisfied that the College will have sufficient liquid resources to continue trading for the next twelve months and therefore that the accounts should be prepared on the 'Going Concern' basis.</p>	Report Item 2
4(iii)	<p><b>STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL</b></p> <p>i The Statement of Corporate Governance and Internal Control was discussed. JG reminded the meeting that the statement was based on the wording of the model set of accounts which accompanied the Association of Colleges' Accounts Direction Handbook. She said it was up to individual colleges to present their financial statements in a way that best presented their activities, so the statement could be amended to reflect any deficiencies or differences. This was noted.</p> <p>ii The Statement of Corporate Governance and Internal Control was approved and it was agreed that the Corporation should be advised to approve it.</p> <p>iii <b><u>RESOLVED:</u></b></p> <p><b>(i) To advise the Corporation that the Statement of Corporate Governance and Internal Control may be approved.</b></p>	
4(iv)	<p><b>LETTER OF REPRESENTATION</b></p> <p>i Members' attention was drawn to the draft letter of representation, which was for signature by the College. The Committee considered the content of the letter and agreed to advise the Corporation that it was comfortable with the representations proposed and recommended the letter for approval and signature.</p> <p>ii <b>Corporation Report:</b> The Committee is comfortable with the representations</p>	Report

Item		Action/ Report Item
	proposed in the draft letter of representation and recommends the letter of representation for approval and signature.	Item 3
4(v)	<p><b>FINANCIAL STATEMENTS AND REGULARITY AUDIT FINDINGS</b></p> <p>i DW presented GT’s report on the Financial Statements and Regularity Audit Findings (the “GT Report”), saying the audit was substantially complete and she did not envisage any reason why they should not go to Corporation on schedule. GT anticipated issuing an unmodified opinion on the Financial Statements, subject to the completion of some outstanding items, including the work on going concern.</p> <p>ii Section 2 of the GT Report discussed ‘Significant Risks’ and DW highlighted that the risks around management override of controls and fraudulent transactions were mandatory considerations not specific to the FE sector or to Kirklees College. In each case, substantial testing had been undertaken, with no adjustments or other issues identified. The third ‘Significant Risk’ was pension provision, which had been discussed in significant detail earlier in the meeting, as had the items listed in Section 4 “Other Matters”.</p> <p>iii DW outlined the ‘Other Risks’ identified in Section 3 of the GT report as follows:</p> <ul style="list-style-type: none"> <li>➤ Creditors – completeness of year end liabilities (the risk that creditors and accruals could be understated at the year end;</li> <li>➤ Loans - Valuations and Covenants; and</li> <li>➤ Payroll Accuracy</li> </ul> <p>iv Members noted the extent of the testing undertaken to assess the risks and noted that no adjustments or issues were identified in respect of them. Referring to the RF loan agreement, DW said GT agreed with management’s assessment that it was a basic financial instrument and should be assessed at cost going forwards. GT also agreed with management’s assessment of the implications of the Local Authority loan holiday, i.e. that negotiation a loan holiday did not amount to making a substantial change to the loan agreement.</p> <p>v Reminding members of GT’s other communication requirements, DW drew attention to Section 6 of the GT Report and members noted as follows:</p> <ul style="list-style-type: none"> <li>➤ GT had not been made aware of any incidents of fraud in the period and no other issues had been identified during the course of the audit;</li> <li>➤ GT was not aware of any related parties or related party transactions which had not been disclosed, subject to the satisfactory completion of the work on Holmfirth;</li> <li>➤ GT was not aware of any significant incidences of non-compliance with relevant laws and regulations;</li> <li>➤ Standard representations had been requested from management as well as specific representation in respect of the significant assumptions used in making accounting estimates for the pension provision; and</li> <li>➤ All requests for bank and loan confirmations had been received with no issues to note.</li> </ul> <p><u>Regularity Audit Findings</u></p> <p>vi DW reminded members that the Regularity Audit was concerned with whether expenditure (disbursed) and income (received) had been applied for the purposes intended by Parliament and whether the financial transactions conformed to the authorities which governed them. She said subject to finalising the outstanding</p>	

Item		Action/ Report Item
vii	<p>matters, GT's work in respect of regularity had concluded and nothing had come to their attention which suggested that, in all material respects, the expenditure disbursed and income received during the period from 1 August 2018 to 31 July 2019 had not been applied to purposes intended by Parliament and the financial transactions did not conform to the authorities which governed them.</p> <p>Section 8 set out GT's internal control recommendations. One recommendation was that an annual year-end payroll reconciliation should be produced. The other was concerned with holiday pay accrual, as sample testing had identified that one employee had been given permission to carry over annual leave in excess of the five days permitted, but this was not reflected in the HR system. In this regard, BM said management was taking steps to ensure that employees did not carry over more than the standard five days, or if an excess was agreed that this would be reflected in the College system.</p>	
viii	<p>The Committee noted that Section 10 of the GT Report would be updated with the audit adjustments, once they were finalised.</p>	
ix	<p>Having discussed all aspects of the GT report, the Committee resolved as follows:</p>	
x	<p><b><u>RESOLVED:</u></b></p> <p><b>(i) To advise the Corporation that:</b></p> <ol style="list-style-type: none"> <li><b>a. The Committee has considered the Grant Thornton audit findings;</b></li> <li><b>b. Grant Thornton has advised that the accounting policies used to prepare the College's financial statements were appropriate and accorded with the Statement of Recommended Practice (SORP) 'Accounting for Further and Higher Education' (2015);</b></li> <li><b>c. Grant Thornton's report on the Financial Statements and Regularity Audit Findings contains a statement regarding the firm's objectivity and independence at Section 11, the contents of which the Corporation should note;</b></li> <li><b>d. Grant Thornton has identified no significant control deficiencies;</b></li> <li><b>e. In the opinion of the Financial Statements and Regularity Auditor, the financial statements are in agreement with the accounting records and have been properly prepared;</b></li> </ol> <p><b>(ii) To recommend the Members' Report and Financial Statements 2018-19 for Corporation approval.</b></p>	<p>Report Item 4</p>
5	<p><b>ANNUAL REPORT OF THE AUDIT COMMITTEE</b></p> <p>i JG had circulated an updated version of the draft Audit Committee Annual Report, having prepared the previous draft without having had sight of the GT Audit Findings Report. The Committee resolved as follows:</p> <p>ii <b><u>RESOLVED:</u></b></p> <p><b>(i) To approve the draft Audit Committee report, subject to:</b></p> <ul style="list-style-type: none"> <li><b>- final confirmation of the 'Going concern' basis for the preparation of the accounts;</b></li> <li><b>- GT's advice on the treatment of the Holmfirth Adult Education Centre;</b></li> <li><b>- The other outstanding items identified in the GT Financial Statements and Regularity Audit Findings report.</b></li> </ul>	

AUDITS AND RECOMMENDATIONS		
<b>6</b>	<b>INTERNAL AUDIT PROGRESS REPORT</b>	
i	AM said TIIA had just finished its Cyber-crime and Security review and the draft report should be ready by the end of the week. There would be eight recommendations but nothing significant. The Apprenticeships review was now booked in, as was Business Planning and all three would appear on the next Committee agenda. There had been good buy-in and a positive response from all College staff involved in the audits.	
ii	It was agreed that there was nothing to report to the Corporation.	
<b>7</b>	<b>ROLLING AUDIT ACTION REVIEW</b>	
i	The external auditor's recommendations had been added to the audit recommendation tracking report. It was noted that three of its eight recommendations had been implemented. BM provided an update on progress for the ones that had not yet been implemented and members agreed that satisfactory progress was being made.	
ii	In terms of the internal audit recommendations, the Committee was pleased to see that, of 32 recommendations, 25 were complete, 6 were in progress and one was overdue, representing a reduction of 17 since BM last reported in September.	
iii	BM highlighted that one of the main areas where management had not made progress was around the Major Incident Plan. She said delays had arisen due to management changes in the area but since the Vice Principal Corporate Operations and Executive Director of Information Systems roles had been filled, the review of the plan was progressing.	
iv	<b>Corporation report:</b> Significant progress has been made in implementing the internal and external audit recommendations. Where dates have been pushed back, it has been for sensible reasons such as staffing changes.	Report Item 5
OTHER BUSINESS		
<b>8</b>	<b>FRAUD REGISTER</b>	
i	BM confirmed that, having made diligent enquiries, she was not aware of any actual, attempted or alleged acts of fraud or other irregularities.	
ii	<b>Corporation Report:</b> Having made enquiries in accordance with its Terms of Reference, the Committee has no concerns to report in respect of fraud or other irregularities.	Report Item 6
MATTERS TO NOTE FOR INFORMATION AND ADMINISTRATION		
<b>12</b>	<b>DATE OF NEXT MEETING</b>	
i	Monday 27 April 2020, 15.30.	
<b>13</b>	<b>PUBLICATION OF AGENDA PAPERS</b>	
i	It was agreed that all items asterisked in the circulated agenda should remain confidential for the time being pending Corporation looking at documents.	

## Items of Report for Corporation

Item	Details	Minute
1.	An actuarial loss reported in the Statement of Comprehensive Income in respect of the pension schemes was largely due to the impact of some recently decided tribunal cases. It will not affect the College's ability to meet its liabilities over the next 12 months, as the pension fund is well managed and has made some significant investment gains which will offset some of the increase in liabilities.	4(i) iv
2.	Subject to any external auditor findings, the Corporation can be satisfied that the College will have sufficient liquid resources to continue trading for the next twelve months and therefore that the accounts should be prepared on the 'Going Concern' basis.	4(ii) iv
3	The Committee is comfortable with the representations proposed in the draft letter of representation and recommends the letter of representation for approval and signature.	4(iv) ii
4.	<ul style="list-style-type: none"> <li>a. The Committee has considered the Grant Thornton audit findings;</li> <li>b. Grant Thornton has advised that the accounting policies used to prepare the College's financial statements were appropriate and accorded with the Statement of Recommended Practice (SORP) 'Accounting for Further and Higher Education' (2015);</li> <li>c. Grant Thornton's report on the Financial Statements and Regularity Audit Findings contains a statement regarding the firm's objectivity and independence at Section 11, the contents of which the Corporation should note; and</li> <li>d. Grant Thornton has identified no significant control deficiencies; and</li> <li>e. In the opinion of the Financial Statements and Regularity Auditor, the financial statements are in agreement with the accounting records and have been properly prepared.</li> </ul>	4(v) x
5.	Significant progress has been made in implementing the internal and external audit recommendations. Where dates have been pushed back, it has been for sensible reasons such as staffing changes.	7 iv
6.	Having made enquiries in accordance with its Terms of Reference, the Committee has no concerns to report in respect of fraud or other irregularities.	8 ii