

AUDIT COMMITTEE
Minutes of a meeting held at 10.00 on 30 November 2020 via Microsoft Teams

Present:	Mr J Williams Ms M Carabine Dr A Conn Mr M Pearmain Dr A Williams	Independent Member (Chair) Independent Member Independent Member Co-opted Member Independent Member
Attendance:	5/5 = 100%	KPI 80% Quorum: 3
In attendance:	Mr M Bennington Ms A Corns Ms M Gilluley Ms J Green Mr A McCulloch Mrs R Meara Ms D Watson	Vice Principal Corporate Operations Grant Thornton Principal and Chief Executive Clerk to the Corporation TIAA Executive Finance Director Grant Thornton

Item	Action/ Report Item
CLOSED SESSION	
0	MATTERS RELATING TO THE COMMITTEE'S REMIT AND ANY ISSUES ARISING FROM THE AUDITS
i	<p>The Chair reminded Members that the purpose of the closed meeting was to provide an opportunity for private discussions with auditors.</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 Annex 1.</i></p> <p>10:15 Mr M Bennington, Ms M Gilluley and Mrs R Meara joined the meeting.</p>
PRELIMINARY ITEMS	
01	WELCOME AND INTRODUCTIONS
i	The Committee welcomed its new Chair Mr J Williams, who had been appointed by the Corporation, and thanked outgoing Chair Mr A Williams. Introductions were made.
ii	The Clerk confirmed that due notice of the meeting had been given; the requirement for all persons participating to be able to communicate with one another was satisfied and the meeting, which had initiated from the home address of the Committee Chair, was quorate. The Chair declared the meeting open.
2	APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST
i	There were no apologies. 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 to disclose, other than those matters previously disclosed.
3	APPROVAL OF MINUTES OF THE PREVIOUS MEETING
i	<p><u>RESOLVED:</u></p> <p>(i) To approve the minutes of 21 September 2020 as an accurate record.</p>

Item		Action/ Report Item
3.1	MATTERS ARISING NOT ON THE AGENDA	
i	None were raised.	
3.2	UPDATE ON AGREED ACTIONS	
i	<u>Share FRC guidance on reporting on the impact of COVID-19:</u> This had been actioned.	
ii	<u>Corporation paper to be shared with Mr Pearmain:</u> This had been actioned.	
iii	<u>Proposal for Association of Colleges (“AoC”) joint audit committee session:</u> MG had planned to raise this at a meeting the following week but it was agreed that she would instead write to the regional director, suggesting the AoC might facilitate something.	
iv	Action: To write to the AoC regional director suggesting a joint audit committee session.	MG
v	<u>Networking/training event:</u> To defer until post COVID-19.	
vi	<u>Dr Conn involvement in audit:</u> This had been actioned.	
vii	<u>Review of Whistleblowing Policy:</u> This was on the Agenda.	
viii	<u>Induction Training:</u> This had been partially actioned and the Clerk would follow-up.	
ix	Action (rolled over): Clerk to follow up on her initial discussion with Committee member Ms M Carabine.	JG
ANNUAL REPORTING 2019-20		
4	GRANT THORNTON’S LETTER OF ENGAGEMENT	
i	DW explained that, this year’s Letter of Engagement included a £1m limitation of liability, which applied only to the regularity work. She said this was in line with market practice and it had already been agreed and accepted by the Education & Skills Funding Agency (“ESFA”). She said the Post 16 Audit Code of Practice (“ACOP”) required the proposed limitation of liability to be discussed with a College’s Audit Committee before being approved by the Corporation.	
ii	The Committee considered the Letter of Engagement, noting the responsibilities of the Corporation set out on page 2 and in the second appendix, as well as the reporting responsibilities of the auditor. It agreed to report to the Corporation as follows:	
iii	Corporation report: The Committee discussed with Grant Thornton their Letter of Engagement, which is recommended for approval and signature. The terms of the letter include a limitation of liability in respect of the regularity work, which the Committee feels is a reasonable ask. Governors will see that, while the proposal is expressed as a total amount, it represents Grant Thornton’s individual liabilities to both the Corporation and the ESFA. The Corporation (along with the ESFA, which has already done so) must formally accept and agree that the overall liability to be limited includes 100% of Grant Thornton’s liability to it.	Report Item 1
5	GOVERNOR ASSESSMENT OF GOING CONCERN	
i	RM presented her report, explaining that she was asking the Committee to assess its adequacy as an assurance source for the appropriateness of the assessment of going concern.	
ii	The report detailed the approach RM had taken and had presented to the auditor to enable the College financial plan to be ‘stress tested’ as follows:	

	<ul style="list-style-type: none"> ➤ Her starting point had been the Corporation-approved July 2020 financial forecast; ➤ She had adjusted this to reflect known facts and events since July, i.e. the opening cash position, the Further Education Capital Allocation funding and the timing of cashflows associated with Pioneer House and the sale of Halifax Road; ➤ The adjusted position was marginally better than plan, due to the 2019/20 outturn being better than forecast; ➤ She had then reassessed the operating position for the current year, to arrive at a sensitised position, assuming no efficiency savings and no further income in 2020/21 and the continuation of this into 2021/22; ➤ In this 'worst case' scenario that RM had modelled, the College would not run out of cash until February 2022; ➤ The report also set out mitigating actions that could be taken should the worst-case scenario materialise, which were deemed to be extremely unlikely; ➤ In a graph which accompanied the report, RM had compared the July 2020 position, the revised baseline position and the worst-case scenario impact position. 	
iii	<p>RM said on the basis of these calculations, she was confident that the College would remain a going concern for 12 months from the date of sign-off of the accounts (i.e. December 2021).</p>	
iv	<p>DW said RM had done substantial work to support the going concern assessment and her responsiveness and diligence had made a difficult process much easier. She said while there was still an inherent level of risk, by stretching the forecasts as described in her report, RM had made a strong case for what could credibly happen to cash in a worst-case scenario situation. Members were pleased to hear that the audit work was now almost complete, with only a couple of further items to attend to: an internal quality review process to which all audits were subject this year and a further review of the disclosures in the accounts to confirm they were still comfortable with them.</p>	
v	<p>The Committee discussed the disclosures in the accounts, noting as follows:</p> <ul style="list-style-type: none"> ➤ The College would need to report a significant actuarial loss on the Local Government Pension Scheme and this would result in a net liability position. There would need to be some commentary in the disclosures around that. Although the statement of comprehensive income would show a deficit, EBITDA¹ performance was in excess of budget; and ➤ As the pandemic had caused some of the Pioneer refurbishment works and associated expenditure to be pushed back into 2021, the tighter 2020/21 Restructuring Fund loan performance covenant would be harder to meet and consequently the College was forecasting a breach of the covenant in January 2022. It would not impact on going concern, as even if the ESFA would not waive the breach of restructure the covenant, the only material consequence would be potentially having to repay the facility one month earlier than planned. 	
vi	<p>A Member referred to the Kirklees Council loan agreement, saying it contained no loan covenants but were there any cross-default provisions? DW said she had asked the same question and had gained assurance that there were not. RM confirmed this.</p>	
vii	<p>Another Member asked how the College compared with others in terms of the impact of the pension liability. RM said it had fared worse than most, being assessed as high risk but she hoped that, on the next actuarial assessment, the risk would be downgraded, bringing it more in line with the sector. She said according to the AoC,</p>	

¹ 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
viii	40% of colleges were in a net liability position for 2018/19 and this was likely to increase for 2019/20 due to the pension valuation.	
ix	Congratulating RM on her going concern paper and compelling sensitivity analysis, the Committee agreed to commend it to the Corporation.	
ix	Corporation report: The Committee considers that the Executive Finance Director's report on going concern is a strong source of assurance that the College remains a going concern. Although an actuarial loss in respect of the Local Government Pension Scheme causes the College, along with many other public sector organisations, to report a net liability position this year, this does not affect the College's ability to meet its liabilities over the next 12 months.	Report Item 2
6	MEMBERS' REPORT AND FINANCIAL STATEMENTS	
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.	
ii	RM said the accounts were on track for formal sign-off; the audit close-down meeting had been held on 12 November. She drew attention to some 'points to note' at the top of her report, which included the additional disclosures required in respect of the impact of COVID-19, the reporting of the actuarial loss on the Local Government Pension Scheme and an entry in respect of the right-of-use asset value of the College's 125 peppercorn lease of Pioneer House. She said the College was still seeking to ascertain the right-of-use asset value and its accounting treatment in discussion with the auditor. A Member asked when the Pioneer lease had come into play and RM said the College had taken it on in June 2019.	
iii	It was noted that the accounts delivered a financial health score of 140, i.e. 10 points higher than forecast in July and 10 points higher than the Restructuring Facility assumption, due to improvements in operating performance from forecast as reported to the Corporation in October. In response to a question, RM explained that 140 was still within the 'Requires Improvement' financial health band, which went up to 180 points. She said a sale of the Halifax Road property would make a significant difference to the score.	
iv	Members commented positively on the document, saying it was a very good articulation of what the College was about and had achieved in 2019/20. The impact of the coronavirus pandemic, including on operations, the finances, governance and the internal control framework, was described in a good level of detail.	
v	Noting that there were still some sections of the report requiring updating and some points for checking, a Member asked whether there were any barriers to completing it on time. RM listed the outstanding items, the key ones being the confirmation of the valuation of the Pioneer House peppercorn lease and Grant Thornton's remaining going concern work. Both RM and DW had set aside time to complete the work.	
vi	The Chair thanked RM and her team for their work on the financial statements.	
7	FINANCIAL STATEMENTS AND REGULARITY AUDIT FINDINGS	
i	DW presented Grant Thornton's report on the Financial Statements and Regularity Audit Findings (the "audit findings report"), saying the audit was substantially complete and she did not envisage any reason why they should not go to Corporation on schedule. Grant Thornton had not identified any concerns about the College control environment while undertaking the audit and anticipated issuing an unmodified opinion, subject to the completion of some outstanding items, including:	

	<ul style="list-style-type: none"> ➤ finalisation of work on the Pioneer House asset valuation and accounting; ➤ receipt of the final funding confirmation from the ESFA; ➤ the post balance sheet event review (up to the date of signing); and ➤ final reviews of the going concern assessment and, in particular, the disclosures made in the financial statements. 	
ii	<p>Section 2 of the audit findings report discussed ‘Significant Risks’ and DW reminded Members that the risks around improper revenue recognition, management override of controls and fraudulent transactions were mandatory considerations not specific to the FE sector or to Kirklees College. She highlighted the extensive work her firm had done around the Pension Provision risk this year; the reporting spanned three pages. In each case, substantial testing had been undertaken, with no adjustments or other issues identified.</p>	
iii	<p>DW outlined the ‘Other Risks’ identified in Section 3 of the audit findings report as follows:</p> <ul style="list-style-type: none"> ➤ Loans – compliance with loan covenants; ➤ Completeness of trade creditors and accruals – completeness of year end liabilities (the risk that creditors and accruals could be understated at the year end); ➤ Payroll Accuracy; and ➤ Existence of fixed asset additions. 	
iv	<p>She said no adjustments or other issues had been identified from the work performed.</p>	
v	<p>In the ‘Other Matters’ section, the audit findings report addressed the right of use asset value of Pioneer House, as well as the question of whether the College was required to consolidate its share of the West Yorkshire Colleges Consortium² 2019/20 net profit into its own financial statements, Grant Thornton concluding that this would not be required, as the College’s share of the company’s 2019/20 profits would be negligible in terms of materiality. It also reported Grant Thornton’s conclusions as to whether an impairment in respect of the Halifax Road property from 2018 would need to be reversed on the basis of an offer received for the site. RM had concluded that there was not yet sufficient certainty over the value to require the impairment to be reversed in the 2019/20 financial statements; it would be looked at again next year, assuming a sale went ahead. Grant Thornton concurred with that assessment.</p>	
vi	<p>Reminding Members of Grant Thornton’s other communication requirements, DW drew attention to Section 5 of the audit findings report and members noted as follows:</p> <ul style="list-style-type: none"> ➤ Grant Thornton 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; ➤ Grant Thornton was not aware of any related parties or related party transactions which had not been disclosed; ➤ Grant Thornton was not aware of any significant incidences of non-compliance with relevant laws and regulations; ➤ 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 ➤ All bank and loan confirmation requests had been received with no issues to note. 	

² West Yorkshire Consortium of Colleges Limited is a joint venture company (company number 04165288) owned by seven West-Yorkshire based Further Education Colleges.

Item	Action/ Report Item
<p>vii</p> <p>viii</p> <p>ix</p> <p>x</p> <p>xi</p> <p>xii</p>	<p><u>Regularity Audit Findings</u></p> <p>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 Grant Thornton’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 2019 to 31 July 2020 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 7 set out Grant Thornton’s internal control recommendations. There was one minor recommendation (not considered a significant deficiency) around employment contract management: that the College should hold a signed written statement of employment particulars for each employee.</p> <p>Section 8 provided an update on the actions taken to address internal controls issues raised in previous years. Two of those controls issues had been dealt with in line with the auditor’s recommendations. The third, controls issue, which was concerned with the risks around the Executive Director of Finance posting journals, had not been fully resolved and Grant Thornton recognised the practical barriers to doing so. Consistent with previous years, they had obtained a listing of all journals posted by RM and reviewed them in line with expectations. RM had posted eight journals in the year, all at the year end, supporting the College’s statement that she posted very few journals. DW said if the Committee accepted the risks associated with the practice the College had adopted, then the control recommendation would be removed from future reports.</p> <p>Members noted that the processes and controls that the College had in place in this regard had changed slightly due to the lockdown. Once journals were posted, an Excel copy was being sent to the Financial Controller for scrutiny. Being happy to accept the risk, the Committee agreed that the recommendation should be removed from future reports.</p> <p><u>RESOLVED:</u></p> <p>(i) Having noted the advice of the financial statements auditor in respect of the risks associated with the posting of complex journals by the Executive Director of Finance and having discussed the Colleges processes and controls, the Committee is comfortable with those risks.</p> <p>Having discussed all aspects of the audit findings report, the Committee agreed to report to the Corporation as follows:</p> <p>Corporation report: The Corporation is advised as follows:</p> <ul style="list-style-type: none"> ➤ The Committee has considered the Grant Thornton audit findings; ➤ Grant Thornton’s report on the Financial Statements and Regularity Audit Findings contains a statement regarding the firm’s objectivity and independence at Section 9, the contents of which the Corporation should note; ➤ Grant Thornton has identified no significant control deficiencies; ➤ In Grant Thornton’s opinion, the financial statements are in agreement with the accounting records and have been properly prepared; ➤ The Committee recommends the Members’ Report and Financial Statements 2019/20 for Corporation approval.
	Report Item 3

Item		Action/ Report Item
8	<p>LETTER OF REPRESENTATION</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 Corporation Report: The Committee is comfortable with the representations proposed in the draft letter of representation and recommends the letter of representation for approval and signature.</p>	Report Item 4
<i>11.15 A comfort break was taken. When the meeting resumed at 11.20, all re-joined.</i>		
9	<p>ANNUAL REPORT OF THE AUDIT COMMITTEE</p> <p>i The Committee discussed the report and agreed that it was an accurate record of its activities during 2019/20. The Clerk was instructed to make a couple of amends:</p> <p>ii Action: Clerk to delete the words "the committee's view" at the bottom of page 6 between paragraphs 4.29 and 4.30 and to remove the yellow highlighting on the 100% attendance.</p> <p>iii A Member commented on the number of chargeable internal audit days the College had purchased in 2019/20, saying it seemed low relative to Land-based Further Education colleges, which averaged 30-32. RM said she would obtain some benchmarking data for General Further Education colleges to support future decision-making.</p> <p>iv Action: To obtain benchmarking data on the number of chargeable internal audit days purchased by General Further Education colleges.</p> <p>v <u>RESOLVED:</u></p> <p>(i) To approve the draft Audit Committee report, subject to:</p> <ul style="list-style-type: none"> - final confirmation of the going concern basis for the preparation of the accounts; and - The other outstanding items identified in the Financial Statements and Regularity Audit Findings report. 	JG
RM		
INTERNAL AND EXTERNAL AUDIT		
10	<p>ROLLING AUDIT ACTION REVIEW</p> <p>i The number of control recommendations being tracked had decreased from 40 to 37. Since the last report 11 had been added - from the Incident Management Reporting and Creditors/Payroll review reports - and 14 had been removed, having been reported as closed off at the September Committee meeting.</p> <p>ii Members were pleased to see the number of overdue actions reducing over time. RM provided a progress update for the actions not yet been implemented and Members agreed that satisfactory progress was being made. Referring to the internal audit Rolling Audit Action Review report and observing that work was underway to refresh policy documents, a Member asked what assurance the Committee could have that the College would attend to the implementation of the policies, as well as their formulation. RM agreed that the College would need to take steps to ensure the policies were disseminated and followed and said a promotional campaign was planned, along with a programme of IOSH training for managers. SmartLog fire and health & safety compliance monitoring software had been adopted for monitoring, and procedures were in place to deal with any breach.</p>	

Item		Action/ Report Item
iii	The TIAA representative Mr A McCulloch (“AM”) said some further internal audit recommendation were soon to be added, following the review of Estates Property Compliance. Members were pleased to hear that these had been discussed at the Operational Health & Safety Committee meeting the previous week and work was already underway to address them. Noting that it was several months until the Committee’s next scheduled meeting, Members asked to see the report as soon as the management comments had been added.	
iv	Action: The draft internal audit review report on Estates Property Compliance to be shared with Members as soon as the management comments are added.	RM
v	Corporation report: Good 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		
11 FRAUD REGISTER		
i	RM said, an entry had been made in the Fraud Register for first time in a long time. Members noted the details of the concern, which was at an early stage.	
ii	Corporation Report: The Committee was made aware of a concern which had been entered in the Fraud Register. An investigation is at an early stage and there is nothing to report at this time.	Report Item 6
12 WHISTLEBLOWING POLICY AND FRAMEWORK		
i	The Clerk had prepared a further assurance report in respect of the whistleblowing framework and had undertaken a review and refresh of the policy wording with a view to softening the language further. Members discussed the report and noted the positive indicators in respect of the framework, agreeing that the lack of any significant social media activity or external whistleblowing was a particularly positive sign. There was discussion about how the amended policy would be promoted and the Clerk said it would be shared in a staff email communication in the usual way. The policy itself had not changed, it was only the wording, so training already rolled out to managers would stand.	
ii	Corporation report: The Committee considered proposed changes to the Whistleblowing Policy and took advice from the Clerk advice about the effectiveness of the framework. It is satisfied with the current arrangements but will continue to monitor them and will revisit the position should any negative indicators emerge. The amended whistleblowing policy is recommended for Corporation approval.	Report Item 7
MATTERS TO NOTE AND ADMINISTRATION		
13 DATE OF NEXT MEETING		
i	Monday 26 April 2021, 3.30pm.	
14 PUBLICATION OF AGENDA PAPERS		
i	It was agreed that all documents should remain confidential, except for the minutes of the previous meeting and the report on whistleblowing.	

Items of Report for Corporation

Item	Details	Minute
1.	The Committee discussed with Grant Thornton their Letter of Engagement, which is recommended for approval and signature. The terms of the letter include a limitation of liability in respect of the regularity work, which the Committee feels is a reasonable ask. Governors will see that, while the proposal is expressed as a total amount, it represents Grant Thornton's individual liabilities to both the Corporation and the ESFA. The Corporation (along with the ESFA, which has already done so) must formally accept and agree that the overall liability to be limited includes 100% of Grant Thornton's liability to it.	4iii
2.	The Committee considers that the Executive Finance Director's report on going concern is a strong source of assurance that the College remains a going concern. Although an actuarial loss in respect of the Local Government Pension Scheme causes the College, together with many other public sector organisations, to report a net liability position this year. This does not affect the College's ability to meet its liabilities over the next 12 months.	5ix
3	<p>The Corporation is advised as follows:</p> <ul style="list-style-type: none"> ➤ The Committee has considered the Grant Thornton audit findings; ➤ Grant Thornton's report on the Financial Statements and Regularity Audit Findings contains a statement regarding the firm's objectivity and independence at Section 9, the contents of which the Corporation should note; ➤ Grant Thornton has identified no significant control deficiencies; ➤ In Grant Thornton's opinion, the financial statements are in agreement with the accounting records and have been properly prepared; ➤ The Committee recommends the Members' Report and Financial Statements 2019/20 for Corporation approval. 	7xii
4.	The Committee is comfortable with the representations proposed in the draft letter of representation and recommends the letter of representation for approval and signature.	8ii
5.	Good 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.	10v
6.	The Committee was made aware of a concern which had been entered in the Fraud Register. An investigation is at an early stage and there is nothing to report at this time.	11ii
7.	The Committee considered proposed changes to the Whistleblowing Policy and took advice from the Clerk advice about the effectiveness of the framework. It is satisfied with the current arrangements but will continue to monitor them and will revisit the position should any negative indicators emerge. The amended whistleblowing policy is recommended for Corporation approval.	12ii