

## **SOUTHPORT COLLEGE**

### **MINUTES OF AUDIT COMMITTEE MEETING HELD ON 27<sup>TH</sup> NOVEMBER 2018**

|                       |                 |  |
|-----------------------|-----------------|--|
| <b>Present:</b>       | John Fell       | Independent Governor                       |
|                       | Terry Fleetwood | Independent Governor                       |
|                       | Richard Jacklin | Associate Member                           |
|                       | Mo Kundi        | Independent Governor                       |
|                       | Jim Turner      | Independent Governor                       |
| <br>                  |                 |  |
| <b>In Attendance:</b> | Jonathan Creed  | ICCA (Internal Auditor)                    |
|                       | Aileen Ogston   | Wylie & Bisset (External Auditor)          |
|                       | Eddie Green     | Vice Principal Services (minutes 31 to 65) |
|                       | Lesley Venables | Clerk to the Corporation                   |

#### **APOLOGIES FOR ABSENCE**

31 There were no apologies for absence.

#### **DECLARATIONS OF INTEREST**

32 A standing declaration of interest was received from John Fell as he is married to the Chair of the Corporation.

#### **MINUTES OF THE MEETING HELD ON 16<sup>TH</sup> OCTOBER 2018**

33 **Resolved -** That, subject to 2 minor amendments in relation to minute 10 and minute 25, the minutes of the meeting held on 16<sup>th</sup> October be approved as a correct record and signed by the Chair.

#### **MATTERS ARISING**

34 Governors received for information a report on progress against the actions identified at the previous meeting. It was noted that all of these were either completed or in the process of being implemented.

#### **CONFIDENTIAL ITEMS**

35 The Committee agreed that none of the agenda items under consideration should be classified as confidential.

#### **FINANCIAL STATEMENTS 2017/2018**

##### **External Auditor's Management Letter 2017/2018 – Southport College**

36 Governors received for information the Management Letter that accompanied the Financial Statements for 2017/2018.

37 There were no outstanding items resulting from the audit and an unqualified opinion would be issued in relation to both the financial statements and regularity audits. In response to questions about the organisation, the External Auditor reported that during their work there appeared to be an open and transparent culture which allowed the identification and addressing of any issues.

38 During their work, the auditor had not encountered any instances of fraud or management override of internal controls.

39 One medium priority recommendation had been made in relation to ensuring that all governors completed the register of interests in a timely manner, as at the time of their visit, not all responses had been received. The Vice Principal Services gave an assurance that this action had now been completed.

40 It was noted that all significant risks that had been raised at the previous year's audit had now been cleared.

41 Governors were informed that the College had adopted a merger accounting approach to the Financial Statements by adding together the full year results for both Southport College and KGV College.

42 Governors questioned whether comparative figures were likewise adjusted and the Vice Principal Services confirmed that this was the case.

#### **External Auditor's Management Letter 2017/2018 – KGV College**

43 The Committee received for information the External Auditor's Management Letter for 2017/2018 for KGV College.

44 The External Auditor reported that a qualified opinion would be issued in respect of the Financial Statements, due to the lack of third party evidence over the pensions valuation included within them. The Vice Principal Services reminded governors that this had previously been identified as a potential issue and previous discussions as to whether an interim valuation should be undertaken had concluded that there was no benefit in the cost of such an exercise. It was also re-iterated that as this was a mid year position it would have no effect on the merged college accounts.

45 Governors asked whether the merged college had assumed a higher pension cost liability. The Vice Principal Services reported that both pension schemes were accounted for separately at the moment and added together within the accounts. The same assumptions had been used for both schemes. The Vice Principal Services noted that the intention of the Fund at the moment was to combine the valuation into one at the time of the next actuarial revaluation (March 2019). It would therefore be likely that two interim valuations would be done for 2019/20 and the combined valuation would not be ready until the 2020/21 Financial Statements were prepared.

46 The External Auditor advised that there were no adjusted or unadjusted errors and that there was a statement on the going concern nature of the accounts, due to the college no longer existing as a separate entity.

## **Regularity Self-Assessment 2017/2018**

47 The Vice Principal Services presented the draft completed Regularity Self-Assessment for 2017/2018, which the Corporation was required to approve under the Post-16 Audit Code of Practice.

48 As reported earlier in the meeting, the Financial Statements Auditor had not identified any issues relating to the regularity of the use of public funds and, thus, an unqualified opinion would be issued to the College.

49 In response to questions from the Committee, the Vice Principal reported that one of the highest risk areas for Regularity and Propriety was that of sub-contracting of provision to third parties and the College had previously taken a decision to cease such contracts.

**Resolved -** That the Corporation **be RECOMMENDED** to approve the Regularity Self-Assessment for 2017/2018

## **Consideration of Fraud & Irregularity**

50 Governors received a completed self-assessment proforma relating to fraud and irregularity. The questions in the proforma covered the areas of governance, internal controls and management frameworks.

51 All senior staff and Governors were required to confirm that they were not aware of any instances of fraud or irregularity and the Vice Principal Services reported that no issues had been raised pertaining to 2017/2018. The College maintained a fraud register and governors noted that no such issues (whether actual or suspected) had occurred since 2015. Robust processes were in place and these were tested by both Internal Audit and the ESFA's Funding Auditor.

**Resolved -** That the Corporation **be RECOMMENDED** to approve the Report on Consideration of Fraud & Irregularity

## **Financial Statements 2017/2018 – Southport College**

52 The Vice Principal Services presented the Financial Statements for 2017/2018, together with a reconciliation between the July management accounts and the Statements. A small number of minor drafting changes in relation to the members report and Governors table would be made to the Financial Statements prior to their submission to the Corporation's December meeting and the Corporation would be informed of the detail of those. The Auditor still required some sets of Corporation and committee minutes and needed to complete the post-balance sheet review.

53 The accounts showed the College had 'Satisfactory' financial health which was in line with the level of performance agreed with the Transaction Unit.

54 Governors noted the £3.3m actuarial gain primarily due to better than anticipated performance in the investment market.

55 The financial objectives associated with the Financial Statements now focused on the achievement of the plan agreed with the Transaction Unit. Governors were advised that the current ratio figure was lower than expected, primarily due to higher capital creditors than forecast due to delayed capital project expenditure.

**Resolved -** That the Corporation **be RECOMMENDED** to approve the Financial Statements and Letters of Representation.

### **Financial Statements 2017/2018 – KGV College**

56 The Vice Principal Services presented the draft Financial Statements for KGV College for 1<sup>st</sup> August 2017 to 31<sup>st</sup> January 2018. Governors were advised that management had given further consideration to the presentation of the Balance Sheet, in consultation with the External Auditors, and would be revising the previously circulated report prior to submission to the Corporation. This reflected the transfer of assets and liabilities to Southport College at the time of the merger and meant that there would be a zero balance in the accounts. The Vice Principal Services gave a detailed description of the changes that would need to be made to the accounts. Following various questions from Governors the committee agreed that the revised proposed presentation was appropriate for the accounts.

57 The Committee noted that there had been a reduction in the recurrent grant from the ESFA in 2017/2018, which related to underperformance against the learner number targets in the previous year, and that the accounts included grant income in relation to the £1.7m settlement of the bank loan for KGV, payment of which was a condition of funding from the Transaction Unit. There had been an actuarial gain on the pension fund, due to an increase in the level of the stock market. In response to questions from governors the Vice Principal Services reported that the fund was subject to a re-valuation every 3 years and the College paid its ongoing annual commitments, together with a proportion of the deficit in each academic year.

58 **Resolved -** That the Corporation **be RECOMMENDED** to approve the revised Financial Statements, Regularity Self-Assessment and Letters of Representation for KGV College for 2017/2018.

### **ANNUAL REPORT OF THE AUDIT COMMITTEE 2017/2018**

59 The Committee received a draft of its Annual Report to the Board and to the Principal (in his capacity as Chief Accounting Officer) for 2017/2018. The Report summarised the work of the Committee in 2017/2018, along with the outcome of the various audits. It concluded that, in the Committee's opinion:

- i) the College's systems of internal control are adequate and effective
- ii) the College's arrangements for risk management, control and governance framework and processes for securing economy, efficiency and effectiveness are adequate and effective.

60 It was noted that a total of 15 recommendations had been made by the Internal Auditor during 2017/2018, none of which had been classified as 'high priority', 11 of which had been graded as 'medium priority', 3 as 'low priority' and 1 as 'advisory'. At each meeting the Committee reviewed progress made by management in implementing recommendations and was able to state that a good level of progress had been made during the year.

61 The Report had been prepared in line with the requirements of the Post-16 Audit Code of Practice and the English Colleges' Code of Good Governance.

62 The Committee were reminded that the terms of reference had been reviewed during the year to align them to the new Post-16 ACOP.

- 63 **Resolved** - That, subject to one amendment on the Committee's overall opinion, the Audit Committee's Annual Report for 2017/2018 be submitted to the Corporation and sent to the Education & Skills Funding Agency with the Financial Statements

## **IMPLEMENTATION OF AUDIT RECOMMENDATIONS**

64 The Vice Principal Services presented a report that enabled governors to track the implementation of previous audit recommendations.

65 It was noted that 5 recommendations had been completed and a further 6 recommendations were still to be implemented or had been partially completed.

66 Governors questioned management on changes to the planned implementation dates for some items, which had been rolled forward by a year. The Vice Principal Services explained that, although these recommendations were outstanding for completion, staff and financial resources had been diverted to other, more pressing priorities following the merger.

67 In response to questions governors were advised that the College's ICT infrastructure required a significant amount of work to align all systems across both campuses. The websites for both brands within the College's overall entity needed to be overhauled and the full Marketing Strategy would be presented to the Corporation for discussion at its December meeting.

## **REVIEW OF HIGH RISK ACTION PLAN**

68 Governors received for information a report on the College's high risk action plan. This included a risk score, which was calculated from the impact and likelihood, with a score in excess of 6 considered to be high risk.

69 There had been no changes to the high risk profile, however, it was noted that in areas such as recruitment of higher education learners the target for 2018/2019 had not yet been met and remedial action was being taken. The Committee was reminded that it undertook an annual review of the key risks and how these mapped to the College's strategic objectives. The purpose of this report was to highlight any differences compared to those presented at the previous meeting and for governors to be satisfied that appropriate action was being taken.

70 It was agreed that in the future the risk profile would be cross-referenced to the Internal Audit Plan for the year.

## **ITEMS TO BE REPORTED TO THE BOARD**

71 The Chair summarised the key points that would be reported to the full Board at its meeting on 13<sup>th</sup> December 2018:

- Financial Statements and associated documentation received for Southport College (full year) and KGV College (to 31<sup>st</sup> January 2018):
  - Financial Statements Auditor's Management Letter
  - Regularity Self-Assessment
  - Report on Consideration of Fraud & Irregularity
- Audit Committee's Annual Report – to be submitted to the Corporation for information when considering the Financial Statements
- High Risk Action Plan considered

## **RESIGNATION OF CLERK TO CORPORATION**

72 On behalf of the Committee, the Chair thanked Lesley Venables for her contribution to the Committee and the Corporation over the past 15 months.

**Eddie Green left the meeting at this point.**

## **MEETING IN ABSENCE OF MANAGEMENT AND INTERNAL AUDITORS**

73 The Committee met in the absence of management and Internal Auditors. It was suggested that middle managers should be invited to the relevant Committee meeting to enable governor to ask any questions or seek clarification on any items, starting with the new Head of Higher Education at the March 2019 meeting.

## **DATES OF FUTURE MEETINGS**

|               |           |
|---------------|-----------|
| XX March 2019 | 3.00 p.m. |
| XX June 2019  | 3.00 p.m. |