

South Staffordshire College



MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 10 FEBRUARY 2021

PRESENT:

Helen Simpson (Chair)	External
Philip Atkins	External
Andrew Elsby-Smith	External
David Isted	External

In attendance:

David Hoose	Mazars (External Auditor) <i>departed meeting following minute 135</i>
Clare Parkes	TIAA (Internal Auditor) <i>departed meeting following meeting 117</i>
Lisa Smith	RSM Representative <i>departed meeting following minute 113</i>
Claire Boliver	Chief Executive & Principal (CEP)
John Snow	Deputy Principal - Finance & Resources
Miranda Hughes	Clerk to the Corporation

APOLOGIES FOR ABSENCE

99 Apologies were received from Colin Horwath.

PRE-MEETING BETWEEN COMMITTEE AND AUDITORS

100 The Committee and auditors met without management present to allow both the opportunity to raise any issues. None of the auditors had any issues to raise with the Committee in private.

101 The External Auditor advised that the 2019-20 audit process had been positive, with nothing adverse to bring to the attention of the Committee. The timeframe by which both the leadership team and auditor became aware of the covenants breach with Lloyds Bank was raised, along with the evidence base to assume that a breach would not occur in advance. The auditor advised of the chronological challenges associated with the new loan agreement not being in place until September 2020 and therefore after the 2019-20 year end.

102 The representative from RSM updated the Committee on the work undertaken with regard to the independent assurance review of learner numbers and advised that the College had been both supportive and communicative in the provision of requested information, despite the challenges faced with conducting audit services during the COVID-19 pandemic. Confirmation was received that, during the debrief post audit, College staff were aware of the areas for development.

DECLARATION OF INTERESTS

103 None received.

MINUTES

104 **Resolved** that the minutes of the meeting held on 25 November 2020 be approved as a true and accurate record.

Action Grid

105 The Committee reviewed the action grid noting the seven items closed and reports on two actions still in progress. Governors noted that deadlines for the two remaining actions were not yet due.

BUSINESS CONTINUITY

COVID-19

106 The Deputy Principal – Finance & Resources updated the Committee with regard to business continuity in light of the January 2021 national lockdown. The following information was highlighted:

- As required by the DfE, delivery was taking place remotely except for vulnerable students, with Learning and Resource Centres (LRCs) open at Tamworth and Rodbaston sites for vulnerable learners.
- Futures open at Rodbaston was also confirmed to be open for vulnerable learners with an EHCP whose parents wish them to attend.
- On 5 January, DfE guidance allowed for some examinations to be undertaken during the month of January, where providers judge it right to do so and as such, a number of externally set COVID-secure exams were undertaken so as not to disadvantage students.
- Asymptomatic Testing at Tamworth Campus for Staffordshire County Council had been undertaken from mid-January, along with a testing facility at the Lichfield site.
- Timetables continued as normal, with theory front-loaded which had been reflected in assessment plans and schedules.
- License to practise qualifications were being coordinated in line with the most recent DfE guidance and planning taking place for a controlled and safe return to College from 8 March. with a priority on practical-based delivery to ensure learners caught up on missed learning as swiftly as possible.
- Attendance robustly monitored and registers are marked as normal. As at 9 February attendance was confirmed to be high at 91.2% and retention strong at 95.3%.
- As at 9 February, 95.2% of students were still on track; with work and student satisfaction remaining high.
- To support social isolation and mental health, Progress Coaches were providing a range of online activities and clubs to support learners, which had received positive feedback at Learner Voice meetings.
- To support remote learning, the College had distributed large volumes of electronic devices to learners. Based on 2019-20 Free School Meal data, the DfE had allocated a further 269 devices to the College. Additional devices to support 2020-21 in-year growth subsequently been requested.

107 On behalf of the Committee, the Chair thanked both the Deputy Principal and CEP for the update.

Cybersecurity

108 The Committee received an update on cybersecurity from the Deputy Principal, where no issues were reported. He advised that the IT team were in the process of moving functions onto a new server in readiness for an infrastructure upgrade that would be undertaken during the February half term.

INTERNAL AUDIT

Independent Assurance Review of Learner Numbers

109 A draft report which outlined findings from the externally commissioned mock review of learner numbers was presented to the Committee. The representative from RSM advised that that, despite it being a critical report, the areas for improvement were already known to College staff in the debrief that followed the review. Attention was drawn to the ten key areas identified that could have led to funding clawbacks had subsequent supporting evidence failed to have been provided following an

official ESFA funding review. Confirmation was received that the review had looked at the following key areas of funding risk for the College, in accordance with ESFA methodology:

- AEB other learning (ESFA funded Adult Education Budget provision)
- Advanced Learner Loans and Loans Bursary
- 16 to 19 funded provision within FM25 (ESFA funded 16-19 provision)
- Apprenticeships, Levy/Non-Levy paying employees (Apprenticeship provision)

110 The Chair thanked the RSM representative for the work undertaken and for the production of a very detailed report. The Chair went on to ask for detail regarding the financial ramifications to the College, had the review not been a mock exercise. Whilst an exact sum could not be provided, confirmation was received that, unlike the mock review in question, formal ESFA reviews afford providers with additional time to produce the required evidence. The representative went on to advise of the procedures in place should additional evidence fail to be provided, which included the provision of alternative forms of evidence, the re-testing of sub-populations of learners, and funding clawbacks relating to the calculation specific learner funding level values.

111 The Deputy Principal thanked RSM for the work undertaken and advised that the review served as a valuable exercise, the findings of which re-affirmed the areas for development known to the College in advance of the audit. With regard to Apprenticeship records, confirmation was received that records management had since been centralised.

112 AEB findings in relation to English and maths, recognition of prior qualifications and additional learning support and learning activity were discussed. The RSM representative confirmed that the areas of focus should predominantly be focussed upon recognition of prior qualifications and additional learning support.

113 **Resolved** that a remediation plan following the review of learner numbers be produced and presented at the March meeting, to enable the Committee to review and monitor progress against set timescales.

Audit Strategy and Annual Internal Audit Plan

114 Further to the matters referred to under minute 55 and 56 of the previous meeting, the Internal Auditor presented the updated TIAA Internal Audit Plan for 2020-21 through to 2022-23 which had been updated to reflect the following amendments:

- Removal of the review of Learner Numbers
- Postponement of the review of Business Continuity and Disaster Recovery, due to COVID-19
- Postponement of the review of Cash Receipting, due to COVID-19
- Inclusion of the review of HR and Safeguarding

115 The Internal Auditor was asked if other colleges had altered the emphasis of internal audit plans given that the control environment had changed owing to the health pandemic. Notwithstanding a small increase in cybersecurity and GDPR reviews, she advised that, due to the planning process undertaken under COVID restrictions during the summer term, institutions were working in accordance with original plans.

116 On behalf of the Committee, the Chair thanked the Internal Auditor for the work undertaken and for the updated Audit Plan.

117 **Resolved** the Board be **RECOMMENDED** to approve the Internal Audit Plan for 2020-21.

Internal Audit Action Grid

118 The Committee received the updated 2020-21 Internal Audit Action Grid, enabling them to monitor progress with the implementation of audit recommendations. The Clerk reported that, from a total of 71 recommendations, 59 had now been completed, leaving five actions in progress within the set time period and seven actions of which were overdue on the original dates. She went on to advise as the February meeting served as an addition to the Committee schedule, work on internal audit

recommendations was ongoing and as such, further reporting would be provided at the 31 March meeting.

RISK MANAGEMENT

COVID-19 Risk Register and Action plan

119 The Committee reviewed the COVID-19 Risk-Register and Action Plan, where the nine key risks facing the College were discussed, along with the progress made. The Deputy Principal advised that the graphs linked to each risk gave an indication of whether a risk had increased or decreased, specifically with regard to the spread of infection rates in the region.

120 The Deputy Principal advised that, given that the February meeting was an additional meeting to the schedule, the Register had been reviewed in advance of the meeting by ELT. For all other meetings, the College Risk Management Group also reviewed the document, in addition to ELT, in advance of meetings. The Deputy Principal was thanked for this work in this area.

FINANCIAL STATEMENTS & REGULARITY AUDITS

121 The Committee received the updated external auditor's completion report together with a further draft of the Financial Statements for 2019-20, along with the auditor's Letter of Representation. A review of covenant arrangements that the College had in place for the year ended 31 July 2020 had been undertaken, along with a review of its latest financial forecasts of which were yet to reflect the additional expected in-year 16-18 growth funding confirmed by the ESFA on 3 February 2021. There remained no high priority issues arising from the audit of the accounts as reported at the Committee's November meeting. As such, the External Auditor commented that a small number of points were still to be clarified as was usual at this time of year and that an unqualified opinion was expected to be issued with no issues of concern to bring to the attention of the Committee. The below matters were identified as outstanding at the time of issuing the report:

- Receipt of final full financial statements and Mazars' review thereof, specifically our review of the updated Going Concern narrative.
- Reforecast cash flow and updated covenant calculations, and Mazars final review of management's going concern assessment.
- Final post balance sheet events review.

122 The subject of Going Concern was raised, whereby the External Auditor was asked for his opinion in relation to covenant positioning in both 2019-20 and 2020-21. Based on the auditor's review of the revised covenant arrangements that the College had in place with its banking providers for the year ended 31 July 2020, the Committee were advised that, in the auditor's opinion, there were no covenant issues at 31 July 2020 and therefore the College's bank debt was appropriately disclosed in the financial statements. Similarly, he stated that, considering both the proposed amendments to the 2020-21 covenants combined with the additional expected in-year 16-18 growth funding, a breach of bank loan covenants in 2020-21 was not anticipated.

123 The subject of both current and previous Lloyds bank loan agreements was raised where the Deputy Principal advised that the Bank considered the previous agreement, in place until September 2020, redundant given that it had been superseded by the new agreement. It was confirmed that no breach would occur for the year ended 31 July 2020. He stated that the new agreement would be varied for 2020-21 onwards, based on no additional ESFA in-year growth funding, and, following detailed and lengthy discussions with the Bank, the proposed variations to the agreement would give the College comfort that the adjustments would prevent the occurrence of a breach moving forward.

124 The probability of a covenant breach with Barclays Bank at 2020-21 year end was discussed. The Deputy Principal confirmed that covenant in question was approximately £15k away from being compliant and as such, the risk of breach would have been mitigated via cost saving measures had no additional ESFA in-year growth funding been received.

125 The Deputy Principal was asked to what degree was he confident that no breach would occur in both 2019-20 and 2020-21. Governors were advised that, on the assumption that Lloyds Bank varied the loan agreement to the levels that had been proposed, he would be fully confident that no breach would occur at 2019-20. For 2020-21 he foresaw, based on the proposed revised covenants, coupled with additional in-year growth funding, no breach occurring, unless the College's financial performance deteriorated further, which he stated that, in his opinion, was unlikely.

126 The External Auditor advised that the production of a revised financial forecast, which showed the impact of in-year 16-18 ESFA growth funding, would be beneficial for all parties to have sight of, in order to fully ascertain whether or not covenant challenges would be apparent in 2020-21. In response, the Deputy Principal advised that it would not be possible to produce such information until the final amount of in-year growth funding had been communicated, which would be calculated upon receipt of the confirmed rate. Putting aside the College national rate, a governor queried the basic national rate which was confirmed at just over £4k per learner, and therefore equated to approximately £450k in total. As such, confirmation was received that, at the very least, over £250k would result in net profit and therefore left sufficient covenant headroom moving forward.

127 The Deputy Principal was subsequently asked if Going Concern would have presented an issue had in-year growth funding not been confirmed. He responded by stating that further savings from the financial forecast would have been sought.

128 A review of the letters of representation had been undertaken whereby the Committee confirmed that they were satisfied with the content.

129 It was observed that management responses in relation to the one medium-priority recommendation detailed section five of the External Audit Report was yet to be added to the document. Confirmation was received that discussion relating to this matter had taken place between auditor and management and as such, the document would be updated accordingly following the meeting.

130 The Committee went on to undertake a review of the updated Financial Statements, with specific focus upon the updates made to the document in view of covenants and Going Concern matters. Following discussion, it was agreed that the narrative related to Going Concern would be updated to the satisfaction of both the College and External Auditor following the meeting.

131 With regard to timescales, the Committee were informed that Lloyds Bank had stated that the completion of their work would take place in the week commencing 15 February and as such, had committed to communicating an outcome to both the College and External Auditor in advance of the ESFA revised accounts submission deadline. Should the outcome fall below expectations, the subject of delaying the signing of the accounts was raised and confirmation was received that a further delay would place the College into formal intervention status. The Committee agreed that, should the outcome be less than expected, an additional meeting of the Audit Committee would be convened.

132 **Resolved** that, subject to no material changes to the financial statements during the process of finalisation, confirmation in writing from Lloyds Bank that the proposed covenant amendments had been approved and an updated financial reforecast inclusive of additional in-year funding be produced, the Board be **RECOMMENDED** to approve the 2019-20 Financial Statements and the Letter of Representation.

133 On behalf of the Committee, the Chair thanked the External Auditor for the work undertaken with regard to the College's financial statements and regularity audit.

ANNUAL REPORT OF THE AUDIT COMMITTEE

134 The Clerk introduced an updated draft of the Audit Committee's Annual Report which summarised the work of the Committee and outcomes of audits during 2019-20. The Committee focused upon the changes to the document since its last meeting and the External Auditor confirmed that the document was compliant.

135 **Resolved** that the updated Committee's Annual Report for 2019-20 be approved for submission to the Board.

MEETING BETWEEN THE COMMITTEE & MANAGEMENT

136 The Committee and management met without the auditors present to allow the opportunity to raise any issues. There were no issues raised with the Committee in private.

ANY OTHER BUSINESS

Tamworth New Build Opportunity

137 The Tamworth new build opportunity was raised where it was agreed that whilst the new venture provided opportunities, it also presented challenges and risks. As such, confirmation was received that, in addition to what was already held within the College Risk Register at the time of the meeting, additional oversight at Audit Committee level would be put into place, should the build go ahead.

138 In response to a query regarding the College taking on additional borrowing to fund the build, the Committee were advised that it was anticipated that government funding would be sought to prevent the accumulation of further debt. It was noted that Lloyds Bank had security over the existing site and as such, governors concurred that their involvement would be required, at the appropriate time.

139 The Committee Chair thanked members for taking the time to attend an additional meeting. The leadership team and Clerk were also thanked for the work undertaken.

DATE OF NEXT MEETING

9.30am, Wednesday 31 March 2021.

Chair

Date