

CITY OF WOLVERHAMPTON COLLEGE

**Minutes of the meeting of the Audit Committee of the Board of Governors held on
Tuesday 26 January 2021 at 5.30pm via Microsoft Teams**

PRESENT

Ms Alison Shannon (Chair) Mr John Bradford
Mr Mike Hastings Mr Trevor Dutton

IN ATTENDANCE

Mrs Elizabeth Ball (Clerk to the Board of Governors)
Mr Peter Merry (Vice Principal Business Success)
Mr Paul Oxtoby (RSM – External Auditors)
Ms Clare Parkes (TIAA – Internal Auditors)
Mr Graham Taylor – Head of Commercial Projects (Item 6)
Ms Mary Carter – Head of Human Resources (Item 6)
Mr Anil Sharma – Safeguarding and Equality and Diversity
Manager (Item 6)
Ms Louise Fall – Vice Principal Student Engagement (Item 6)
Ms Julie Mowbray – Head of Finance

The Internal and External Auditors confirmed that there were no items they wished to discuss in the absence of managers.

Mr John Bradford was welcomed to his first meeting of the Committee.

01/21 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

There were no apologies or declarations of interest.

02/21 MINUTES OF THE PREVIOUS MEETINGS (ITEM 2)

Resolved:

That the minutes of the previous meeting held on 14 October 2020 be approved as a correct record.

03/21 MATTERS ARISING (ITEM 2)

31/19 Draft Annual Accounts 2018/19 and Regularity Self-Assessment Questionnaire

The Vice Principal Business Success reported that the Regularity Self-Assessment Questionnaire was being completed and would be reviewed as part of the consideration of the Financial Statements for the period 2019/20.

03/20 Regularity Audit Self Assessment Questionnaire

The Committee noted the link with the preceding matter arising.

08/20 Fraud Response Plan

It was agreed that the target date for the review of the Fraud Response Plan should be amended to March 2021.

10/20 Data Quality Assurance

It was agreed that the target date for the consideration of an opinion on data quality be amended to March 2021.

04/21 CORRESPONDENCE (ITEM 3)

The Clerk reported that there was no correspondence to be considered by the Audit Committee.

05/21 INTERNAL AUDIT REPORTS (ITEM 6)

(a) Internal Audit Annual Report 2019/20

The Committee considered the Internal Audit Annual Report which had been prepared by the previous Internal Audit Service (Mazars).

It was noted that the report also covered audit assignments that had been completed in October 2020 and which had been delayed as a result of the COVID 19 pandemic.

The Internal Audit Annual report included a summary of the Audit reports that had been completed during the period, the level of assurance and the number of recommendations that had been made.

It was reported that no priority 1 (fundamental) recommendations had been made during the year with 10 priority 2 (significant) and 11 priority 3 (housekeeping) being made.

The Committee considered the Internal Audit Opinion and in particular, noted that on the basis of the audit work, the opinion of the Internal Auditors on the framework of governance, risk management and control is substantial in its overall adequacy and effectiveness.

It was noted that the Internal Audit Annual Opinion was important in supporting the assurances provided to the Board of Governors by the Committee in their Annual Report.

It was resolved:

- **That the Internal Audit Annual Report 2019/20 be recommended to the Board of Governors.**

(b) Assurance Review of Sub-Contracting Certification

The Head of Commercial Projects joined the meeting.

The Internal Auditor (TIAA) reported that this review was of the sub-contracting arrangements in 2019/20 but had been completed by them as the new Internal Audit Service.

It was noted that the outcome of the review was an overall assessment of Substantial Assurance and that no recommendations had been made.

Attached to the report was a summary of the sub-contracts the College had in place in 2019/20, together with a report on compliance with the ESFA funding rules.

Trevor Dutton left the meeting as a result of connectivity issues.

The Committee also noted the certificate providing external assurance on sub-contracting controls which was provided to the ESFA in November 2020.

The Head of Commercial Projects left the meeting.

(c) Assurance Review of Safeguarding

The Safeguarding and Equality and Diversity Manager, the Head of Human Resources and the Vice Principal Student Engagement joined the meeting.

The Internal Auditor (TIAA) reported that the outcome of the review was an overall assessment of Reasonable Assurance with seven important and two routine recommendations being made.

It was noted that the recommendations relating to Governor DBS checks and training records ,primarily involved the information being collated in one place and to Governors being included in the Single Central Record. It was reported however that the DBS check for one Governor was outstanding at the time of the review.

Additional recommendations in the report related to referring to the Single Central Record in relevant College policies and procedures, an independent review of the Single Central Record and the timely completion of online safeguarding training for some staff.

In relation to the recommendation that DBS renewal forms are returned promptly by staff the Committee asked whilst this was a sample size, what level of confidence was there that there were no others outstanding and what could be done to ensure that paperwork was submitted on time.

The Head of Human Resources emphasised that the HR Team take DBS and safeguarding very seriously, but there can be difficulties when a member of staff is absent and efforts are being made to re-engage with the College.

It was confirmed, however, that the member of staff would not return to the workplace until the check had been completed.

The Vice Principal Student Engagement also confirmed that a full audit of the Single Central Register will take place which will ensure that there are no gaps.

The Internal Auditor reported that whilst the recommendations related to Governors and HR, the review had also included safeguarding in relation to students and that no issues had been raised.

The Clerk to the Board of Governors confirmed that DBS checks were now in place for all Governors, but that one was to be resubmitted as the original certificate was not available. She also reported that consideration was being given to how and when safeguarding training for Governors should be refreshed.

The Safeguarding and Equality and Diversity Manager, the Head of Human Resources and the Vice Principal Student Engagement left the meeting.

(d) Assurance Review of Key Financial Controls – Payments

The Internal Auditor (TIAA) reported that the outcome of the review was an overall assessment of Reasonable Assurance with five important and three routine recommendations being made.

The Internal Auditors outlined the recommendations that had been made, the management comments and the implementation timetable and it was noted that all recommendations had been accepted by management.

The Head of Finance reported that the recommendation relating to clarification of BACS payments would be actioned when the Financial Regulations were updated, and that the Purchasing Cardholder Guide would be reviewed by the end of March 2021.

In relation to the bank mandates it was reported that despite being informed of changes in signatories, these changes had not been applied to one of the bank accounts. Initial enquiries had indicated that a further mandate would be required by the bank and as a result the implementation date was March 2021.

The Committee noted that procedures and processes were in place to prevent instances of fraud, but asked whether there were safeguards which protected staff from any allegations of fraud being made against them.

The Head of Finance confirmed that the bank account is checked by her on a daily basis and if there were any concerns these would be identified very quickly.

The Vice Principal Business Success reported that one potential area of fraud related to payroll and phishing emails and that there had been an instance last year where someone had been able to change bank details of an employee.

The Committee were advised that sector updates about potential fraud are circulated to members of staff and that there is an update about the anti fraud and anti bribery procedures that will be circulated in the near future.

It was resolved that the Board of Governors be advised on the outcome of the Internal Audit Reports.

06/21 FINANCIAL STATEMENTS AUDITORS REPORT 2019/20 (ITEM 4)

The External Auditors presented the draft report and commented that the audit process had worked well this year despite it being necessary for this to be carried out remotely.

Key points highlighted by the External Auditor included:

- No changes to income had been identified. The Vice Principal Business Success reported that certification about income had now been received from the ESFA and the Combined Authority.
- No issues had been raised in relation to income recognition.
- The College has systems of control in place to safeguard assets and no concerns were raised in relation to the potential for management override of internal controls.
- There had been a significant increase in the pension fund liability.

It was reported that the most significant issue related to going concern and the breach of the bank covenants.

The Vice Principal Business Success advised that for the past two years, the bank had issued a letter of comfort which enabled the financial statements to be signed off but that this year they require certain actions to be taken before such a letter will be issued.

One of the conditions is having £1m of cash at the financial year end, which the financial forecast does not currently predict.

The Vice Principal Business Success highlighted however that cash at the year end will affect the College's ability to operate within its means in April when levels of funding are lower.

If the bank does not provide the College with a letter of comfort, the External Auditors reported that whilst the audit report would be unqualified it would contain an emphasis of matter and significant uncertainty.

The Vice Principal Business Success reported that consequently the College's position will be influenced by the support that will be provided by the ESFA and the repayment profile for the Restructuring fund loan.

It was resolved that the draft Financial Statements Auditors' Report 2019/20 be recommended to the Board of Governors.

07/21 DRAFT FINANCIAL STATEMENTS 2019/20 (ITEM 5)

The Vice Principal Business Success provided a report to the Committee on the draft financial statements 2019/20.

It was noted that whilst the financial statements would usually be signed off at the meeting of the Board in December, this year the ESFA had moved the deadline for submission to 31 January 2021.

The Vice Principal Business Success highlighted key issues including:

- These were a set of consolidated accounts which included the subsidiary company.
- The operating loss for the year was different to the management accounts operating position as a result of the pension adjustments.
- There was also a movement in the Pension actuarial loss identified on the balance sheet which had increased to £47m.
- Cash at the year end was not sufficient to satisfy the covenants in relation to the bank loan.
- Net liabilities of £7m related to the bank loan being shown as repayable on demand.

The Committee asked how much management time is taken up in resolving the issues relating to the pension liabilities, covenants and going concern issues.

They were advised that a significant amount of time is spent satisfying statutory requirements including collecting data. It was reported that this year the workload had increased due to the number of returns required by the funding body in January.

Governors asked what the position will be if the College does not submit the financial statements by the deadline of 31 January 2021.

The Vice Principal Business Success reported that this had been discussed with the ESFA and that a further discussion would take place later in the week, the outcome of which would be reported to the Board of Governors' meeting on Thursday 28 January 2021.

He also reported that there are some other matters that need to be finalised including the letters of representation and the regulatory self-assessment questionnaire.

In relation to the subsidiary company it was noted that the accounts are drafted and will be signed off by the directors at the Company's Annual General Meeting.

The Vice Principal Business Success confirmed that the financial statements were unlikely to be signed off by the Board of Governors at their meeting on 28 January 2021 as it was important for them to see the outcome of the discussion with the bank and to be aware of any qualification or emphasis of matter before signing.

The intention would be, if necessary, to hold a special meeting of the Board of Governors in February 2021.

It was resolved that the Audit Committee note the report on the draft Financial statements.

08/21 ANNUAL REPORT ON RISK MANAGEMENT AND ASSESSMENT OF THE ADEQUACY OF THE RISK MANAGEMENT FRAMEWORK (ITEM 7)

The Vice Principal Business Success presented the report.

It was reported that the Risk Management Policy had been reviewed and that only one change was proposed to remove the requirement for the highest priority risks to be reported via the Management Accounts.

Governors noted that the risk appetite matrix would be revisited as a result of changes to the management structure.

The Vice Principal Business Success reported that in view of the challenges that had been presented by the COVID 19 pandemic a separate risk register had been prepared.

He confirmed that the overall risk register currently includes 12 high risks and It was reported that where there has been an increase in the risk score this resulted from an increase in the likelihood of the risk materialising brought about by the national circumstances.

In relation to the COVID 19 risk register it was noted that this includes 26 risks with 7 being identified as high (a reduction of 2 since the last report).

The Vice Principal Business Success explained that during the first national lockdown the College received concessions around funding, but that there is less support now than before. This includes a lack of support for apprentices. It was noted however that during this lockdown the College has been more proactive in furloughing staff where it is fair and reasonable to do so.

It was highlighted that the College has been able to avoid staff redundancies by using the job retention scheme and that the risk relating to apprentices is included in both risk registers. This risk is unlikely to reduce as during lockdown employers are unlikely to be taking on new apprentices and others may be facing redundancy.

The Committee noted the role of Governors in the management of risk and the priorities moving forward which included expanding the College's risk management processes and to explore the potential for adopting a more dynamic approach by using an electronic system.

It was resolved that

- **The Annual Report on Risk Management and Assessment of the Risk Management Framework be approved.**
- **The updated Risk Management Policy be approved.**

09/21 AUDIT COMMITTEE ANNUAL REPORT

The Clerk to the Board of Governors presented the report and confirmed that it had been prepared in accordance with the requirements of the Post 16 Audit Code of Practice.

It was noted that the report included information about the Committee, a summary of activity and an assessment of performance and that the Financial Statements Findings report (when finalised), Internal Audit Annual report and Annual report on Risk Management would be included as appendices.

The Clerk reported that there were no proposed changes to the Committee's Terms of Reference.

It was suggested that the report should also include reference to the report on Sub-Contracting controls as this related to the 2019/20 financial year. The External Auditor also confirmed that their Audit opinion would not change and that the report would only be updated if the letter of comfort from the bank was not forthcoming.

The Clerk reminded the Committee of the opinion that they provide to the Board of Governors as part of the report and that this supports the Board of Governors in signing the Corporate Governance statement in the annual accounts.

The Committee asked that some additional wording which appeared to be superfluous be removed from the report.

It was resolved:

- **that the Audit Committee Annual Report 2019/20 be approved.**

Recommendations to the Board of Governors:

- **That the Audit Committee's opinion is that the College's audit arrangements, its framework of governance, risk management and control processes for the effective and efficient use of resources, solvency and the safeguarding of assets are adequate and effective.**
- **That Audit Committee's opinion is that the audit framework in place at the College provides assurances that the financial monitoring, governance and risk management framework supports the strategic objectives and medium term financial security at the College.**

10/21 ANNUAL REPORT ON FRAUD AND WHISTLEBLOWING (ITEM 9)

The Clerk to the Board of Governors presented the report and confirmed that there had not been any known instances of fraud or whistleblowing during the academic year 2019/20.

The Committee reviewed the Whistleblowing Policy and noted that no amendments were proposed.

It was resolved that the annual report on fraud and whistleblowing be noted.

11/21 ANY OTHER BUSINESS (ITEM 10)

The Vice Principal Business Success reported that in the past week the College had been informed of two additional audits that would take place.

It was noted that one of the audits related to the potential for College records being used to support the ESFA in drawing down European funding. More importantly however, the second related to an audit by the Office for Students in relation to HE provision in 2019/20.

The Vice Principal Business Success reported that the HE audit was unlikely to result in any adjustment being made, but that the report would be provided for the consideration of the Committee.

It was resolved that the report be noted.

12/21 CONFIDENTIALITY (ITEM 11)

There were no items that should not be made available for public inspection.

13/21 DATE AND TIME OF NEXT MEETING (ITEM 12)

24 March 2021 at 5pm