

## Minutes of Virtual Audit Committee Meeting held at 9am on 21 June 2021

Present: Ashley Cullen, Rob Nitsch & Mark Pembleton (Chair)

Apologies: None

In Attendance: Richard Bott Mazars  
Denise Cheng-Carter Interim Chief Finance Officer  
James Hewitson Mazars  
Paola Schweitzer Clerk to the Corporation  
Karen Shaw Southern Internal Audit Partnership  
Penny Wycherley Interim Principal

### Minutes

#### 1 – Standing Items

**966 Apologies for Absence**

There were no apologies for absence.

**967 Membership**

There were no membership issues.

**968 Declarations of Interest**

There were no declarations of interest.

**969 Minutes**

The minutes and confidential minutes without staff present of the meeting held on 26 April 2021 were **Agreed** as a correct record and will be signed by the Chair.

**970 Matters Arising**

Governors noted that all matters arising from the previous meeting, with the exception of colour coding the outstanding audit recommendations, had been completed or would be considered at the meeting.

#### Matters for Discussion & Decision

**971 Internal Audit Report – summer term 2021**

Karen presented paper 2842/21/A setting out three internal audit reports for the summer term 2021. She noted that the final report concerning apprentices was still in draft form and would be brought to the Committee in the autumn term.

**Additional Learner Support** was given reasonable assurance, with the report finding a *'generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.'* An area for improvement was ensuring that consent was provided before sensitive personal information was

shared with College staff (there was no evidence that consent had been provided for one student of the 25 student records reviewed). There were two management actions for completion by 30 June 2021. Rob asked Penny if she believed this issue was restricted to this area of the College. She believed it was and noted that GDPR would be looked at within the context of the newly merged college.

**Financial reporting and cash flow management** was given substantial assurance, with the reporting finding *'a sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.'* There were no management actions.

**Financial planning, budget setting and forecasting** was given reasonable assurance, with the report finding *'a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.'* The internal auditors were reluctant to give substantial assurance in this area given the unknowns in the sector and noted that a relatively minor action to update the College's Financial Regulations and Procedures in line with the new budget process had been identified.

There was a discussion about apprenticeships, with Rob seeking clarification on how governors had oversight of this area. Penny stated that Learning & Quality Committee received an apprenticeship update at every meeting (subsequently reported to Corporation through their minutes) and she provided an update in her Principal's Report. She noted that the apprenticeship issues were historic and the internal audit report reflected that. However, a great deal of work had been carried out to improve this area and she was confident the issues were being resolved. This was illustrated with year-end achievement forecast to rise to 66.1% which was above the national average and in excess of minimum level performance (MLP). Apprenticeships would remain high on the risk register but was likely to reduce.

Mark thanked the internal auditors for their thorough work and noted that it was a great achievement by the College to have the necessary controls in place. Governors **Noted** the Additional Learner Support, Financial Reporting & Cash Flow Management and Financial Planning, Budget Setting and Forecasting reports.

## 972 **Review of Outstanding Audit Recommendations**

Denise presented paper 2844/21/A setting out the review of outstanding audit recommendations.

There were currently 13 completed, four partially completed and five ongoing actions. The latter primarily concerned the College estate as there was currently insufficient resources to resolve the actions identified. ESFA Transformation Funding would address this, but the announcement of successful bids had been delayed and there was no indication when they would be announced. Mark asked what provision had been made in the event the bid was unsuccessful, to which Denise replied that provision had been made in the 2021/22 budget to resolve the most critical areas.

Governors **Noted** the Review of Outstanding Audit Recommendations.

## 973 **Risk Register**

Penny presented paper 2847/21/A setting out the risk register which was last updated in early June.

Updates to the register were highlighted in red, with a column indicating which risks were considered by which Committee. No new significant risks had emerged and there weren't any major changes to existing risks, with the exception of IT which had reduced with the replacement of the network. New equipment was being purchased to manage the cybersecurity risk. The biggest risk remained apprenticeships. Penny noted that there was a separate Covid risk register which had been reviewed positively by Ofsted and the internal auditors. The College tested more students than other colleges and to date had not had any internal Covid transmissions except in the nursery..

Governors **Noted** the risk register.

#### **974 Merger with Portsmouth College**

Penny noted that governors were receiving weekly updates from the chair. The merger remained on schedule for 01 August 2021. There remained some trade union concerns regarding terms and conditions for new members of staff and discussions were ongoing. In response to a question, Penny clarified that Portsmouth College staff were protected under TUPE in perpetuity except in some circumstances in which case the College was required to consult with staff. It was not feasible to offer 6<sup>th</sup> Form College pay and conditions to all staff. Denise confirmed that the financial plan had been drawn up on the basis of existing staff remaining on their current terms and conditions. Rob asked if there was a precedent from other merging colleges. Penny stated that she had written and/or spoken with a number of other colleges to learn from their experiences and confirmed that the majority had done what Highbury College and Portsmouth College were doing i.e. TUPE protection for Portsmouth College staff and new staff employed on revised terms and conditions after merger.

#### **975 Financial Statements Audit Planning Memorandum 2020/21**

Richard presented paper 2846/21/A setting out the 2020/21 financial statements audit planning memorandum. The report summarised Mazars' audit approach, highlighted significant audit risks and areas of key judgements, provided details of the audit team and fees and the auditors' considerations and conclusions on their independence as auditors.

Richard drew governors' attention to key areas of the report, noting that there had been a number of changes to audit requirements during the year.

Richard stressed the importance of guarding against fraud as colleges were being increasingly targeted. They needed to check directly with suppliers and employers to ensure that all payment changes were legitimate. Penny was reasonably confident that the College had strong firewalls, reporting that an attempt had been made to change her own account details but this had been thwarted by payroll.

The revised Joint Audit Code of Practice had two significant changes:

- Whilst the ESFA would continue to provide Corporations and auditors with a grant payments statement in respect of the funding year, the statement would not constitute assurance over the funds earned by the college. This would require external auditors to undertake additional assurance work. Final guidance was awaited from the ESFA.
- External auditors were required to present their findings to Corporation. Richard noted that the ESFA seemed to be easing this requirement by inferring that inviting the Chair of Corporation to the Audit Committee would be sufficient.

Mark asked what had caused the ESFA's heavy duty approach. Richard believed it was driven by some new ESFA employees and some incorrect college returns meaning that the ESFA were owed sums of money it was unable to clawback. Mark believed that all public sector organisations as well as government departments were experiencing this new approach.

Richard drew governors' attention to the board's responsibility for assessing the College's ability to continue as a going concern. Auditors were required to obtain sufficient audit evidence regarding whether a material uncertainty related to going concern existed and to consider the appropriateness of governors' use of the going concern basis in preparing the financial statements.

Responsibility for safeguarding assets and the prevention and detection of fraud, error and non-compliance with law/regulations rested with those charged within the College with governance and management. Auditors were required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigated the fraud risks.

Corporation was responsible for the regularity and propriety of its income and expenditure and compliance with funding conditions. Auditors were required to undertake an engagement to provide 'limited assurance' that the College's expenditure disbursed and income received had been applied to purposes intended and that financial transactions conformed to the authorities that governed them.

With regards to the business cycle, planning would take place in June and September 2021, with testing of controls and substantive procedures carried out in October and completion (including final review of financial statements) in November 2021.

Significant risks and key judgement areas were summarised in the report and included management override of controls and income recognition. Other significant areas included going concern including Covid-19. Other areas were identified in the previous Audit Completion Reports such as accounting treatment for the Joint Venture in Saudi Arabia, implications of Tower refurbishment and ownership and fixed asset register and records. Richard noted that whilst there had been significant improvements in these areas, there remained a need to ensure they had been dealt with correctly and that accounting practices continued to improve.

Rob asked for clarification concerning the impact of the merger on the external audit. Richard stated that Mazars would carry out the audit for the year ending on 31 July 2021 and as the merger would take place on 01 August 2021, it would not be in year. The merger would, however, be referenced in the 2020/21 statements. Denise noted this had been discussed with Mazars and the suggestion was that Highbury

College and Portsmouth College's financial statements would be presented by Mazars and RSM respectively to the City of Portsmouth College board in the autumn term. The merged college was required to go out to tender for both the internal and external audit services and this would be done in the autumn. Penny reminded governors that Highbury College was the surviving legal entity and that the City of Portsmouth College was essentially a renamed Highbury College with an enlarged base so the College's processes would continue. Denise noted that the BDO due diligence exercise reported on the going concern of the new college and that merger risks including those identified through due diligence would be considered by Corporation on 06 July 2021.

There was a discussion about the fees, with Mark noting that he would expect to see a decrease following the amount of work carried out over the last two years. Richard noted that the 2019/20 audit had been one of the complex he had undertaken and huge improvements had been made, however the College was still a complex entity. He agreed to share the amount of senior management time taken to carry out the financial statements and Mark welcomed this transparency. The increased costs associated with the Joint Audit Code of Practice changes would be ascertained once the ESFA had published their final guidance, but until then it was difficult to provide an accurate cost. When pressed, Richard stated he believed the additional cost would be a minimum of 20% of the standard audit fee.

Governors **Agreed** the Financial Statements Audit Planning Memorandum 2020/21.

#### **976 Changes to Joint Audit Code of Practice**

Paola presented paper 2845/21/A setting out the changes to the Joint Audit Code of Practice and the action required.

Paola drew governors' attention to the changes not previously discussed. She stated that there was a great deal of discussion on the Clerks' JISC network concerning the requirement of the external auditors to present their findings to the board. Whilst she accepted the point that this diminished Audit Committee's autonomy, she believed it important to adhere to the Code and did not therefore think it acceptable to, for example, provide a recording of the auditor's presentation to board members. Denise suggested board members could be offered the opportunity to join the joint Audit Committee and Finance & Estates Committee meeting.

Governors **Noted** the changes to the Joint Audit Code of Practice.

#### **977 Arrangements for Approving 2020/21 Financial Statements following merger**

Paola presented paper 2848/21/A which set out the arrangements for approving the 2020/21 financial statements following the merger.

Portsmouth College's Audit Committee annual report to Corporation and 2020/21 financial statements and Highbury College's Audit Committee annual report to Corporation and 2020/21 financial statements would be considered by the City of Portsmouth College in the autumn term. Assurance on Portsmouth College's Audit Committee annual report and financial statements to the City of Portsmouth College would be provided by Portsmouth College governors who joined the City of Portsmouth College board, RSM (Portsmouth College's external auditors) who had

confirmed they would engage with the new board and Portsmouth College's Finance Director (who would be continuing in her role at the new college).

Governors **Noted** the Arrangements for Approving 2020/21 Financial Statements following merger.

**Minute 978 was confidential.**

The meeting ended at 10.55am.