

Minutes of a Joint Meeting of the Finance and General Purposes Committee and the Audit Committee on Monday 11 November 2019 at 8.30am in the Conference Room, RHC

In Attendance:

Audit Committee: Sasha Burns (Chair), David Griffin (Vice-chair), Stephen Haydock and Nicola Reid

Finance and General Purposes Committee: Jonathan Langdon (Chair), David Tomaney (Vice-chair), John Abbott, Guy Adams, Duncan Alexander, Anthony Smith, Karuna Tharmananthar and David Tomaney.

Also in Attendance: Xanne Blythe (Clerk to the Corporation), Nathan Coughlin (Bishop Fleming Representative) and Paul Lonsdale (Vice Principal- Finance).

Apologies: Pat Flaherty (Audit Committee Member).

The joint meeting of the Audit Committee and Finance and General Purposes Committee was held to look at the Members' Report and Financial Statements for the year-end July 2019. The Audit Committee would be concerned with the annual Audit Report and opinion from the Financial Statements and Regularity Auditors, whilst the Finance and General Purposes Committee would scrutinise the detail of the Financial Statements, each Committee providing different assurances to the Corporation.

The Finance and General Purposes Committee Chair, presided as Chair for agenda items 1 to 4, and welcomed visitors to the joint meeting of the Finance and General Purposes Committee and Audit Committee.

JOIN 1 **Declarations of Interest (agenda item 2)**

Action

The Chair explained that the normal declarations of interest were in place. Governors with links to the Richard Huish Trust (Guy Adams, John Abbott, David Griffin and Jonathan Langdon), under agenda item 3 and 4, would not be counted in the quorum and would not take part in any vote when recommending the Members' Report and Financial Statements 2019 to the Corporation for approval. Both the Audit Committee and Finance and General Purposes Committee were quorate for all agenda items.

JOIN 2 **Members' Report and Annual Financial Statements for the Year Ended 31 July 2019 (agenda item 3)**

The Members' Report and Financial Statements for July 2019 (MRFS) had been circulated in advance of the meeting and had been scrutinised at the Finance and General Purposes Committee meeting dated 4 November 2019. The minor amendments as proposed at this F&GP meeting had been made in the circulated report. In response to detailed questions, further information and clarification was provided. The following points were highlighted in particular:

- page 6 summarised the College's operating deficit. The underlying financial performance, excluding LGPS charges was a surplus of £37K for 2018-19(2017-18 surplus £4K),
- the size of the pension deficit on the College balance sheet, the present value of the liabilities had been calculated using a discount rate to apply to future pension costs, the size of the deficit could increase if employer contributions were to rise,
- income from HE and Internationals students had dropped for 2018-19 compared to 2017-18,

- the ESFA Funding Audit final report, completed earlier in the 2019-20 autumn term, had not yet been received. A final figure for the end of year financial accounts would be forwarded from the College CIS team for the final return (R14) - in year (2018-19) changes to apprenticeships. A provision of £20K had been made in the 2018-19 financial accounts for the ESFA Funding Audit. Any adjustments, unless material, would be made in the 2019-20 financial accounts,
- the SCC Funds and Investments Manager had been invited to the recent F&GP meeting on 4 November 2019 to discuss the LGPS valuation for the College, and its disparity with other college valuations. The LGPS pension liability for Huish was approximately three times greater than sixth form colleges of a similar size nationally. Governors had questioned why the SCC pension scheme liability was out of proportion compared to other colleges and how this liability figure was derived. The SCC F&I Manager had explained that he was working on understanding the disparity, the work was complex, and could potentially relate to decisions that the College had made over the past 15-20 years. The actuary was currently carrying out a reassessment of the College's deficit liability. There was a £7m deficit on the 2018-19 balance sheet, with an annual payment from the College of £70k for a 22 year repayment plan. The F&GP Committee had discussed the difference between the accounting valuation and the funding valuation assumptions, and the potential crystallisation of the liability payment and its impact on the College. Pensions had been designated as medium risk for the College by the external auditor, Bishop Fleming.

RESOLVED: that the Members' Report and Financial Statements dated 31 July 2019 be recommended unanimously for Corporation approval on 2 December 2019.

JOIN 3 External Auditor's Key Issues Discussion Document (KIDD) and Letter of Representation (agenda item 4)

The External Auditor's Key Issues Discussion Document (KIDD) had been circulated in advance of the meeting and had summarised the audit conclusions and highlighted the key findings arising from the audit. The Letter of Representation was a standard format and had also been circulated ahead of the meeting.

During the presentation of the report by the External Auditor, the following points were raised during discussion:

- the audit was largely complete with no concerns, and the financial statements gave a true and fair view of the state of the College's affairs as at 31 July 2019, and of the College's income and expenditure, gains and losses and changes in reserves and the cash flows for the end of the year,
- the audit risks management override of controls, revenue recognition and pension assumptions were covered, with the requirement to cover auditing standards (ISA 240) to consider fraud and management override of controls, no material errors had been identified from the testing carried out,
- auditor's work in 2018 had identified a number of historic credit balances on the College balance sheet, these aged credit balances were reviewed in 2019 and an update was provided, it was expected that the deposit creditor would be nil next year,
- a summary of the key accounting judgements was provided. The buildings economic life had been updated to 50 years,
- management had included a £20K provision in respect of an over claim of income for apprenticeships and as a consequence a claw back could potentially be sought by the ESFA,
- fixed asset physical testing had been undertaken to check the assets on the fixed asset register for existence and impairment,
- the Oak House accommodation block, under a 21 year lease, did not meet the definition of an onerous contract. The VP-F updated the meeting on the demand for UK based boarders,
- the Auditor discussed the audit insights data and the high level of low value

correction/reverse journals posted for 2019. This suggested that more time had been spent correcting minor errors this year, compared to last year,

- it was recommended that a list of the related parties was forwarded to the finance team to cross check against all new suppliers, to ensure that all related party transactions were identified,
- the Auditor's work had not identified any regularity issues, nor any instances of non-compliance of the financial statements with the College Accounts Direction for 2018 to 2019 nor the Statement of Recommended Practice: Accounting for Further and Higher Education,
- the Auditor highlighted changes to the FE SORP on 3 October 2018, reflecting the amendments to FRS 102,

The Bishop Fleming representative took the opportunity to thank the VP-F and the staff members involved in the preparation of the statutory accounts for their co-operation and assistance.

RESOLVED:

1. that the Key Issues Discussion Document and Management Letter for the year ended 31 July 2019 be noted and received, and
2. that the Letter of Representation for the year ended 31 July 2019 be recommended unanimously for Corporation approval on 2 December 2019, to be signed by the Accounting Officer (Principal) and Chair of RHC Governors.

At this point all the F&GP Members withdrew from the meeting and the Audit Committee Chair presided as Chair for the remainder of the meeting.

JOIN 4 RHC Audit Committee Annual Report – 31 July 2018 (agenda item 5)

The Chair brought Governors' attention to the small number of updates within the Audit Committee's annual report, the report had been drafted in accordance with the Post 16 Audit Code of Practice. The report would be updated and circulated electronically to the Corporation meeting, to agree an overall judgement on the quality of the internal and external audit service for 2018-19.

RESOLVED: that the RHC Audit Committee Annual Report for 31 July 2019 be approved for submission to the December 2019 Corporation meeting.

JOIN 5 Closed Discussion – Opportunity for Committee Members to meet with Auditors independent of senior managers (agenda item 6)

The Principal and VP-F left the room at the request of the Chair, to allow the opportunity for Governors to meet with the External Auditor independently.

The Bishop Fleming representative advised that the College finance team had been engaged, prepared and transparent. There had been no concerns or issues. The Audit Committee Chair thanked the external Auditor for his contribution to Audit Committee meetings.

Governors' assurance was discussed, informed by the strategic risk register and the assurance map, once in place. A series of focussed and targeted internal audits were required for 2019-20 to provide Governors with a source of external validated assurance. Specialised internal audits were required to provide greater challenge and scrutiny for key risk areas.

Bishop Fleming's independence was noted by the Audit Committee Governors, the external Auditor was also the Auditor for the Richard Huish Trust with separate partners and managers overseeing the audits. The cross charge to the Trust was raised and it was noted that going forward the aim was to have more dedicated staff employed by the Trust.

The Committee thanked the Bishop Fleming team for their work involved in the preparation of the statutory accounts for their second year. The Audit Committee also extended their thanks to the

RHC VP-F and the finance team involved with the external audit.

**JOIN
6** **Any Other Business, Date of Next Meeting (agenda item 7)**

It was agreed that the Audit Committee's meeting on 18 November 2019, would comprise only two agenda items (i) ESFA Funding Audit Report and remedial action plan, (ii) RHC Internal Audits/Assurance Plan for 2019-20 for Corporation approval. The Corporation Chair, Vide-chairs and all Committee Chairs had been invited to attend.

With no further business the meeting concluded at 9.30am

The minutes were agreed and signed

Chair..... Date.....