

SANDWELL COLLEGE

Minutes of the Audit Committee meeting held on
Thursday 14 January 2021, 1.00pm

Present: N Grace Independent Governor (Chair)
G Bassi Independent Governor
J Tew Independent Governor

In attendance: J Bailey Exec Director, Finance and Corporate Resources
B Devitt Grant Thornton
H Lillington Grant Thornton
E Scotford Clerk to the Corporation
L Tweedie RSM

Apologies: J Francis Independent Governor

		Action
U21.1	<u>Declarations of Interest</u>	
	There were no declarations of interest.	
U21.2	<u>Apologies</u>	
	Apologies were received from Jayne Francis, Independent Governor and were approved by Governors.	
	Governors noted a review of membership would be conducted to fill the remaining vacancy on the Committee.	
	RESOLVED THAT: Apologies were accepted.	
U21.3	<u>Minutes of previous meeting held on 24 November 2020</u>	
	RESOLVED THAT: Governors approved the minutes of the previous meeting held on 24 November 2020 for signing by the Chair.	
U21.4	<u>Matters Arising</u>	
21.4.1	Minute No. U20.33.4.3 – brief update on outstanding actions from internal audit - to be brought to the March meeting.	Exec Dir, F&R
21.4.2	Minute Nos. U20.37.20 and U37.22 – Governors to feedback comments on the accounts to the Executive Director, Finance & Resources, for her to report back to the Committee Chair on progress and report back via email to committee members – actioned.	
21.4.3	Minute No. U20.43.5 – the Executive Director, Finance & Resources, would raise the suggestion of a Risk Appetite Statement with the internal Project Board for capital matters – actioned.	
21.4.4	Minute No. U20.44.4 – Governors would review the performance of the FSA at the next meeting – noted for the next scheduled meeting of the Committee in March.	Clerk

U21.5	<u>Financial Year-End 2019/20</u>	
21.5.1	<u>Sandwell College – Members Report and Financial Statements 2019/20</u>	
21.5.2	<u>Financial Statements and Regularity Audit:</u> - Audit Finding Report 20291/20 incl. Letter of Representation (Appendix C)	
21.5.2.1	The Executive Director, Finance & Resources, explained there were no changes to the income and expenditure to the previous version. The Audit Findings Report had not resulted in any changes to the profit.	
21.5.2.2	A high-level summary was given by the FSA outlining the 2 opinions they were required to provide: on the Financial Statements and on the Regularity Audit, both of which confirm that the funds have been used by the College for the purposes intended. An unqualified opinion would be issued.	
21.5.2.3	The external audit had been conducted wholly remotely this year due to the Covid-19 situation and had worked very well. There were one or two minor outstanding items to be completed, the reasons for which were outlined in the report's 'status of the audit' section. The delay was out of the hands of both the College and the FSA and was reliant on the West Midlands Combined Authority's (WMCA) Board which did not meet until 19 January 2021. Confirmation from the WMCA is expected next week. The FSA confirmed the Board could approve signing of the accounts, subject to the authorities being confirmed.	
21.5.2.4	The revenue cycle was a standard risk each year. There were no specific issues this year.	
21.5.2.5	Management override of controls was a standard risk. There were no particular issues to bring to Governors' attention.	
21.5.2.6	Pension were the third main risk area. Covid-19 had created a number of issues for auditors relating to uncertainties in asset values at the year end. As the College has a share of the fund, this feeds into its accounts but it was fully accepted that these were the estimates of the Pension Fund. Different sectors have taken different approaches to any material uncertainty regarding pension assets. The auditors of the West Midlands Pension Fund (WMPF) placed an Emphasis of Matter, declaring uncertainty around asset value at the year end. The FSA acknowledged this could be very changeable due to the Covid-19 situation but this has to be taken into account for the College's share of the fund. The numbers had been calculated as the difference could be material for the accounts. This had been discussed with officers of the College and the impact of the FSA's technical paper had been explored in depth, with the FSA agreeing with college management that it was not fundamental and there was no need to place an Emphasis of Matter on the accounts. The FSA asked the College to include additional disclosures in the accounts (pensions note) to explain the matter of uncertainty over the WMPF asset value. It had taken a while to reach the end decision because the WMPF did not release its information until their statutory deadline at the end of December 2020.	

21.5.2.7 NFP		
21.5.2.8 NFP		
21.5.2.9 NFP		
		LT arrived
21.5.2.10	The FSA drew attention to some issues which were not included in the Audit Findings Report as they had been resolved in advance of the audit field work, examples given.	
21.5.2.11	Governors acknowledged it had been a very unusual year and issues arising from the pension discrepancies were outside the control of the College and the FSA. Governors did not want to detract from the fact that the audit was completed by the College and the FSA within a short timeframe.	
21.5.2.12	The Executive Director, Finance & Resources, reminded Governors that the pension fund was identified as a risk on the Risk Register but appreciated the challenge from the Audit Committee as it was a significant number on the balance sheet.	
21.5.2.13	Governors acknowledged the number of Green rated items in the report which were testament to the good work and efforts of all.	
21.5.2.14	Governors appreciated the assumptions and how the number had been derived but queried how the College's financial rating could still be classed as Outstanding, with no comment on going concern, when the pension liability figure created a negative balance sheet. A detailed explanation was given by the FSA. The FSA could understand Governors' concern regarding the £11 million deficit figure but suggested Governors did not give undue attention to that number from a going concern perspective. There was no impact on going concern as the figure does not affect the cash levels. The liability of the pension fund is very volatile, largely because of the movement in the discount rate. It is important to be cautious as contributions are key. The deficit number does not drive contributions. The actuaries review contribution rates every 3 years. With regard to the financial health of the College, the ESFA acknowledged the pension deficit figure but understood it did not relate to college management of accounts so it did not feature as part of the scoring system to determine the financial health score of the College.	
21.5.2.15	Governors asked if this issue would affect other colleges too. The FSA advised it would because of how the markets have operated.	
21.5.2.16	Governors asked if the situation would be a greater concern if the cash position was lower. The FSA advised it might be and explained that the cashflow forecast for coming years was an area of risk against which FSAs would assess the likelihood of a college experiencing financial difficulty in the 12 months from sign-off of the accounts. The FSA gave assurance that the College was in a very strong position compared to many colleges.	

21.5.2.17	<p>Governors asked, if this valuation had occurred in March 2022, would the actuaries recommend that contribution rates would have to increase as part of a deficit recovery plan.</p> <p>The FSA commented that the actuarial valuations at March 2022 will impact contribution rates as part of a deficit recovery plan but that there were many factors to take into account, including life expectancy.</p>	
21.5.2.18	<p>Governors asked if the actuarial valuation could impact the going concern of the College.</p> <p>The Executive Director, Finance & Resources, advised that would only happen if a crystallisation event occurred, the likelihood of which was extremely remote in the public sector, so the ESFA and FSA did not put much weighting on it.</p>	
21.5.2.19	<p>Governors noted the 20% contribution level and asked if all new employees were automatically entered into the pension scheme.</p> <p>The FSA advised that most colleges operated in the same way: teachers join the Teachers' Pension Scheme, with support staff joining the LGPS. A small number of colleges have set up a separate subsidiary to which new support staff are appointed under a defined contribution pension scheme. It can save money but raises wider and moral questions.</p>	
21.5.2.20	<p>The Executive Director, Finance & Resources, advised that the College had considered this approach but had actively decided not to pursue this path at this stage.</p>	
21.5.2.21	<p>Governors realised that pensions were a very difficult and wide-ranging area and they would monitor the issue as far as was practically possible.</p>	
	<p>GB left the meeting</p>	
21.5.2.22	<p>Governors recognised a similar situation to the teachers' contribution rate increase could arise in the future but this was out of the hands of the College as contributions and valuations were the remit of the actuaries and government policy.</p> <p>Governors and the College remained mindful of the issue and Governors received assurance that adequate resources were in place for such time that contributions might be increased. Governors suggested that an explanation to this effect be captured in the accounts.</p>	<p>Exec Dir, F&R</p>
21.5.2.23	<p>The Executive Director, Finance & Resources, drew Governors' attention to the £0.5 million profit in the P&L which was particularly positive in the current climate.</p>	
21.5.2.24	<p>The FSA drew Governors' attention to audit findings which included 2 unadjusted amounts, neither of which were material and had been discussed with the Executive Director, Finance & Resources.</p>	
21.5.2.25	<p>Governors thanked the Executive Director, Finance & Resources, the Finance team and the FSA for all their hard work. The FSA expressed their thanks to the College.</p>	

21.5.2.26	RESOLVED THAT: <ul style="list-style-type: none"> • Governors would recommend the Financial Statements and Regularity Audit Finding Report 2019/20 to the Board for approval, subject to the authorities being confirmed. • Governors would recommend the Letter of Representation to the Board for approval and for signature by the Chair of the Corporation. 	
U21.5.3	Annual Report of Audit Committee to Board of Governors and the Accounting Officer – 2019/20	
21.5.3.1	Governors reviewed the Annual Report of the Audit Committee.	
21.5.3.2	Governors approved the report subject to a couple of amendments: further explanation to be given to the statement that Little progress had been made on dealing with internal audit recommendations - this largely related to GDPR because the Board had agreed that the focus should be on Covid recommendations so that work had been paused; the actual financial statement opinion in the accounts to be used.	
21.5.3.3	RESOLVED THAT: Governors approved the Annual Report of the Audit Committee to the Board of Governors and the Accounting Officer – 2019/20, subject to the recommended amendments.	
U21.5.4	Reconciliation of Period 12 Management Accounts (July 2019) to the Financial Statements 2019/20	
	RESOLVED THAT: Governors received and noted the Period 12 management accounts.	
U21.6	<u>ESFA Finance Record</u>	
21.6.1	The Executive Director, Finance & Resources, confirmed there were no substantial changes to the previous information presented to Governors.	
21.6.2	RESOLVED THAT: Governors received the ESFA finance record.	
	GB returned to the meeting	
U21.7	<u>Risk Management Register</u>	
21.7.1	The Executive Director, Finance & Resources, confirmed there had been no substantial changes to the Risk Register. A further update on college projects would be given to the Board meeting on 18 January 2021. The Health & Safety Manager was wholly focused on handling Covid-19.	
21.7.2	RESOLVED THAT: <ul style="list-style-type: none"> • Governors received and approved the Risk Register. • Governors noted the principles of the scoring of the pensions risk. 	
U21.8	<u>Counter Fraud Strategy</u>	
21.8.1	The Post-16 Code of Practice requires colleges to have a Counter Fraud Strategy.	

21.8.2	Governors were satisfied with the wording of the document but believed it was more an action plan or statement of intent than a strategy. The Executive Director, Finance & Resources, would change the document heading.	
21.8.3	The IAS confirmed that the document would satisfy the requirements of the Post-16 Code of Practice in advance of a full strategy being developed.	
21.8.4	RESOLVED THAT: Governors would recommend the Counter Fraud Plan for approval by the Board.	
	FSA and IAS left the meeting	
U21.9	<u>Any Other Business</u>	
	In response to a Governor's query, the Executive Director, Finance & Resources, confirmed that the Cadbury Science City information for the Board meeting would be issued as soon as possible in advance of the meeting but following the meeting with AA Projects on 14 January. The Executive Director, Finance & Resources, apologised for the short timeframe but explained that college management wanted to scrutinise the details to ensure they were comfortable with the proposal.	
U21.10	<u>Determination of Confidential Items</u>	
	Minute Nos. U21.5.2.7, U21.5.2.8, U21.5.2.9	
U21.11	<u>Date and time of next meeting</u>	
	Additional meeting – Monday 18 January 2021, 3.00pm – CANCELLED Tuesday 16 March 2021, 8.00am	

The meeting ended at 2.15pm