

HNC FURTHER EDUCATION CORPORATION

Audit Committee meeting held on 28th November 2022 from 6pm via Teams



Confirmed Open Minutes

Present: Mr N Uppal (Chair), Mr K Webb, Mr S Williams (75% attendance)

In attendance: Ms C Dalrymple (W&B) and Mr J Flynn and Mr Smith-Connor.
(W&B representative attended for agenda items 1 and 2 only)

Clerk: Mrs C Coupland

It was noted that the first three agenda items were to be jointly considered with the Finance & Resources Committee. Time was therefore taken to welcome Mr Williams to his first Audit Committee meeting and for introductions to be made. It was noted that Ms Cooke had submitted apologies for the meeting.

Those present were also advised that Ms Hannah Haigh had resigned with immediate effect from her governor duties due to a change in personal and professional circumstances. The committee asked to record its thanks to Ms Haigh for her support and guidance during her term of office.

1. Notice of Financial Irregularity (confidential)
2. Final Audit Findings Report for the year ended 31st July 2022

Ms Dalrymple presented the Final Audit Findings Report which summarises Wylie & Bisset's key findings in connection with the audit of the financial statements of the College and the regularity audit of the College in respect of the year ended 31st July 2022.

Ms Dalrymple confirmed that Wylie & Bissett had acted as External Auditors for the College during the year ended 31st July, 2022. In advance of the audit, the Audit Strategy Memorandum was discussed and agreed by the Audit Committee in conjunction with an Engagement Letter at the meeting in September 2022.

Ms Dalrymple explained that remote auditing had again taken place. It was confirmed that the work papers provided by the college for audit were of a good standard and increased the efficiency of the audit testing. The committee thanked Mr Flynn and his Team for their timely submissions to the audit process.

The committee was informed that section 1.2 – outstanding matters – will be removed from the final version of the report which will be reissued post sign off of the members report and financial statements at the Corporation meeting on 7th December 2022. This is not unusual practice or specific action taken against the college but rather a sector wide approach necessitated to ensure completeness of the audit testing.

It was noted that the external Auditors anticipated to issue an unqualified audit opinion on the College's accounts for the year ended 31-July-2022 for in their opinion the financial statements give a true and fair view of the College's financial position and the income and expenditure and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the requirements of the Further and Higher Education Act 1992 and directions made thereunder by the Education and Skills Funding Agency.

Ms Dalrymple explained however that a modification was to now be issued in relation to the regularity assurance opinion for the year ended 31 July 2022. For the financial irregularity was deemed to be significant enough to be referred to in their regularity report after having considered the summary findings of the recent internal investigation. This was accepted by the Committee members and senior leaders present. An amended report will therefore be issued for consideration at the forthcoming Corporation meeting. Ms Dalrymple also advised governors that details of the reported financial irregularity had to be included within the members report and financial statements under the Statement of Regularity, Propriety and Compliance.

It was confirmed that the College's forecasts and financial projections indicate that the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. Based on the work performed, Wylie & Bisset have also not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the college's ability to continue as a going concern. Furthermore, W&B have undertaken an overall review of the governance arrangements and process of internal control in place at the College. Based on their findings, it was confirmed that the College has strong systems in place to comply with governance requirements.

Ms Dalrymple explained that the audit procedures were designed and undertaken to ensure greater focus on key risk areas in order that specific conclusions could be made with regard to the identified risks. Details of the risks identified and the proposed audit response were communicated to Governors via the audit planning memorandum. It was noted by the committee that no issues were found with regards to the identified audit risks – revenue recognition, override of internal controls, pension funding and accounting, financial viability regularity – with results from journals testing and testing of accounting estimates not identifying any instances of fraud.

The committee was advised that as part of the final audit work Wylie and Bisset had reviewed expenditure through their expenditure transaction testing, no material irregularities had been identified. Furthermore, no non-compliance with EFSA terms and conditions had also been identified throughout the course of the audit. Hence the reason for the unqualified audit opinion.

Ms Dalrymple went on to draw members' attention to the one new recommendation (low priority) made for this reporting period which had been accepted by management. It was noted that the recommendations from last year had been satisfactorily concluded.

Members were therefore satisfied that the audit approach adopted had provided them with the required confidence that a thorough and robust audit had been carried out and that no other financial irregularities had been identified.

Time was taken to consider the letters of representation and regularity. The committee asked for the Chair of the Corporation and the Principal to sign the letters at the Corporation meeting to be held on 7th December 2022.

Resolved:

- To record the Committee's thanks to all staff for the quality of their work, as endorsed by the External Auditors.
- That the Audit Findings Report be recommended for approval by the Corporation, subject to the agreed amendments.
- That the letter of representations be recommended for approval by the Corporation and signed by the Chair and the Principal (subject to any necessary amendments required in light of modification issued to the regularity audit opinion).

Ms Dalrymple left the meeting at this point.

3. Financial Statement and Members Report 31st July 2022

Mr Flynn explained that the financial statement and members report had already been considered by the senior leadership team and the external auditors prior to submitting to the committees' for recommendation of approval to the corporation. The deadline for corporations is to submit their financial statements to ESFA by 31 December 2022.

Mr Flynn advised that the members report supporting the accounts, give a description of some of the key highlights in the figures, with a summary of the College achievements in the year– the report follows set guidelines, but also allows for some degree of flexibility.

It was noted that the Financial Statements highlighted the unqualified audit opinions in terms of the Financial Statements, the 'Corporate Governance and Internal Control Statement', and the 'Responsibilities of the Members of the Corporation Statement'. However, further amendments were now required given the auditors notice that they were to issue a modification in relation to the regularity opinion and guidance on how best for the corporation to appropriately address the matter within the detail of the members report.

Based on the discussions had around the Annual Report and the Financial Statements, members agreed that at this stage, subject to findings from the disciplinary proceedings and any further external independent investigations undertaken as deemed necessary, it was fair to state that :

- The Corporation can be assured that the College has an adequate and effective framework for governance, risk management and control and has fulfilled its statutory responsibility for 'the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets'.
- The Corporation is able to identify any material irregular or improper use of its funds by the college, or non-compliance with the Education Funding Agency's terms and conditions of funding under the college's funding agreement.
- The Corporation can consider that the College has adequate resources to continue in operational existence for the foreseeable future.

Resolved:

- To recommend the Financial Statements and Members' Report for approval by the Corporation, subject to the amendments agreed by the Audit and F&R Chairs .
- To forward the Financial Statements and Members' Report to the ESFA following approval by the Corporation.

Members of the F&R Committee meeting left the meeting at this point.

4. Apologies for Absence/ Declaration of Interest

Apologies were received from Ms Cooke. It was noted that Mr McCulloch was also unable to attend.

There were no declarations of interest.

5. Minutes from Meeting held on 27th September 2022

Resolved:

- That these be accepted as a correct record

6. Matters arising

Cyber Security breaches and testing report : Term 3.

Mr Flynn provided a verbal update to the Committee regarding the action since taken regarding the severe breach of the IT acceptable and safe use policy and procedures by a staff member. The committee was satisfied with the robust approach taken by the college.

ONS Review:

The Committee was informed that the Office for National Statistics is to publish the outcome of its classification review tomorrow at 9.30am. The Corporation will be informed as to the decision and the Governments response once announced.

7. Audit Recommendation tracker

Mr Flynn presented the audit recommendation tracker to the Committee. It was noted that all completed recommendations are to now be removed from the tracker as it has been confirmed as completed by the Internal Auditors' follow up review and the External Auditors findings report. There are no other items from TPS or other audits to follow up.

Mr Flynn advised the committee that the new low level recommendation raised within the External Audit report will now be the only item to feature on the audit recommendation tracker.

Resolved:

- That the report be received.

8. Anti-Fraud, Bribery and Corruption (ABC) Policy and response Plan – annual review

The Committee recalled that in November 2019, it approved the College's Anti-Fraud, Bribery and Corruption Policy and Response Plan for immediate implementation. The policy and response plan is therefore subject to annual review by the committee. Mr Flynn advised the committee that due to the current financial irregularity matter, the existing policy and plan have been adopted accordingly. It is the view of the senior leaders that the policy remains fit for purpose.

The Clerk advised the committee that post annual review, the only amendments required were updates to the date of the policy and plan and staff titles. Section 2.7 of the response plan was also amended to reflect the updated factors involved with fraud in line with the Post 16 Audit Code of Practice. (as briefed at the Audit Committee's meeting in June 2022).

Resolved:

- That the changes to the ABC Policy and the ABC Response Plan be approved for immediate implementation.

9. Audit Committee annual report 2021/22

The Clerk presented to the committee the draft report for consideration.

The Clerk advised members that the report is a summary of all the activities of the Audit Committee for the financial year 2021/22 and covers all reports for that period.

Members agreed that the report confirms to the Corporation that the Committee's work has involved the consideration of detailed reports from the College's internal and external auditors, and has provided challenge, sought assurances and monitored progress. The focus of the report is therefore on the main conclusions and issues arising from key documents.

It was noted that additional assurance has been duly provided by the Internal Auditors annual report for it concludes that, in their unqualified opinion, a substantial level of assurance has been given in terms of the adequacy and effectiveness of the college's arrangements for governance, risk management and control.

The External Auditors have also provided their unqualified audit assurance opinion in terms of the Financial Statements, the full compliance 'Corporate Governance and Internal Control Statements' and the 'Responsibilities of the Members of the Corporation Statement'.

Time was spent deliberating the draft conclusion of the report in light of financial irregularity and notice from the auditors that they are to amend their final findings report to reflect that they have issued a modification in relation to their regularity assurance opinion for the year ended 31-07-22 given the matter of the reported breaches.

The committee was of the view that the matter of significant financial irregularity is believed to be due to the non-compliance of procurement practices and internal control processes. Members were satisfied that financial policies and Internal control processes / protocols remain fit for purpose given the level of external assurances received throughout the year to demonstrate this. However it was agreed appropriate for the conclusion within the report to make clear that a further independent investigation is needed for the committee (and senior leaders) to better understand how this matter went undiscovered for so long in the first instance and if there has been a breakdown in other internal controls which currently remain unidentified.

The Audit Committee, post discussions, agreed that based on its work during the year and the External Audit review, it is their opinion that the Corporation's responsibilities, included in the financial statements have been satisfactorily discharged.

Resolved:

- **For the Audit Committee to forward their report for receipt by the Corporation at its 7th December 2022 meeting, subject to the agreed amendments to be approved by the chair of the committee, and to then be forwarded onto the ESFA.**

10. Any other Business.

There was no other business to be considered.

11. Learner Impact Reflection

The impact of discussions and scrutiny of the Committee work in improving the outcomes and experience for all learners was considered and the following agreed:

- Assurance received that the college has an adequate and effective framework for governance, risk management and control and that the Audit Committee has fulfilled its statutory and delegated responsibilities for 'the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets'.
- Assurance received that the college has adequate resources to continue in operational existence for the foreseeable future
- The Audit Committee has fulfilled its statutory and delegated responsibilities.
- The Committee recognises that the Corporation has a responsibility to manage internal and external risks as a key component of good corporate governance and is committed to embedding risk management to help achieve the College's strategic objectives

12. Determination of confidentiality

Minutes and supporting documents relating to agenda item 1 are deemed confidential.

The recommended financial statements and Members report is to be determined as confidential until approved by the Corporation.

13. Date of next meeting: 14th March 2023 from 5pm via Teams.