

## Minutes of a Meeting of the AUDIT COMMITTEE held on Wednesday 1 December 2022 at 16.00 pm College Business Centre

### **57/22 APOLOGIES AND WELCOME**

There were no apologies. The Chair welcomed members to the meeting. Ms Karen Shaw joined the meeting online.

### **58/22 DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **59/22 APPROVAL OF THE NON-CONFIDENTIAL MINUTES OF THE MEETING OF 12 OCTOBER 2022**

The minutes were APPROVED as a true record of the meeting.

### **60/22 MATTERS ARISING FROM THE MINUTES OF THE MEETING OF 12 OCTOBER 2022**

The Director of Governance reported on Matters Arising.

The Director of Governance in liaison with the Director of Finance will begin the tendering process for external audit in January 2023.

Amendments to the Risk Register would be considered at the next review.

The Director of Finance is making enquiries regarding a consumer credit license.

All other matters had been actioned.

The Committee NOTED the report.

### **61/22 INTERNAL AUDIT SERVICE ANNUAL REPORT 2021/22**

Ms Karen Shaw of Southern Internal Audit Partnership presented the Internal Audit Services Annual Report 2021/22. She noted that a formal opinion on risk management and control was not mandated and that the College had chosen to undergo review as part of good governance arrangements in line with public standards. Ms Shaw reported a reasonable level of assurance for risk management and control processes. Rigorous challenge was reported and she thanked the College for their participation.

In response to a question from a Member Ms Shaw confirmed that she was comfortable with the support, openness and engagement of the College staff. In response to a further question from a Member, she reported that she did not consider that there was anything to bring to the attention of the Audit Committee. Robust discussions and follow up were confirmed to keep track of actions. Ms Shaw reported confidence in and comfort from progress made and that actions are addressed as they are raised.

Ms Shaw was thanked for the extra level of certainty that this provided to the Audit Committee.

The Committee RECEIVED the report.

### **62/22 ANNUAL REPORT OF THE AUDIT COMMITTEE**

The Committee considered the draft Annual Report of the Audit Committee. Required amendments were noted by the Director of Governance for revision and circulation to Committee members.

The Committee NOTED the report and RECOMMENDED the report for APPROVAL by Corporation subject to the amendments requested.

### **63/22 COLLEGE ACCOUNTING POLICIES**

The Committee CONSIDERED the report and RECOMMENDED the Accounting Policies for APPROVAL by Corporation.

### **64/22 STATEMENT OF INTERNAL CONTROL AND CORPORATE GOVERNANCE**

The Committee considered the Statement of Internal Control and Corporate Governance. Required amendments to erroneous dates were noted by the Director of Finance for revision.

The Committee CONSIDERED the Statement on the System of Internal Financial Control and the evidence used to produce it.

### **65/22 2021/22 DRAFT FINANCIAL STATEMENTS**

The draft Annual Report and Financial Statements for the Isle of Wight College for 2021/22 were presented by the Director of Finance. It was reported some formatting amendments remained but that it was not expected that the bulk would require any change at this stage. The operating results were £580k but the accounts show a deficit with a summary explaining that this is due to the impact of FRS 102. Ms Millar, RSM UK Audit LLP reported that the pension liability had become an asset this year. A large actuarial gain was documented in internal reporting and for the Education and Skills Funding Agency (ESFA).

A Member enquired if the pension figure was impacted by interest rates. The Director of Finance responded that volatility in the markets did cause impact. There was an additional report from the actuaries which it was agreed would be forwarded to the Committee.

A Member sought reassurance regarding the FRS 102 adjustment. The Director of Finance stated that triannual re-evaluation was reflected in employer contributions rates. The Member questioned whether it was a prudent approach to disregard and asked what were the grounds for doing so. Another Member considered this to be a non-cash adjustment, and a further Member considered that this was 'in plain sight' and not hidden. He was not concerned. The Director of Finance confirmed that the College was not benefitting financially from the asset. A Member noted that it was important to be able to explain to the Corporation the reasons for referral to operating surplus and the impact of disposal of assets. The Member who expressed discomfort said that she continued to feel discomfort but that she did not consider she could be made comfortable on this. The Director of Finance stated that it was not making the operating result negative rather the schedule. It was agreed that reviewing the actuarial report would be helpful.

It was agreed to recommend the draft accounts to Corporation for approval subject to any remaining minor amendments as stated.

The Committee CONSIDERED the draft Annual Report and Financial Statements for the year 2021/22 and RECOMMENDED for APPROVAL by Corporation.

### **66/22 FINANCIAL STATEMENTS MANAGEMENT LETTER**

Ms Frances Millar, RSM UK Audit LLP, presented the Management Letter issued by the external auditors for the period 1 August 2021 – 31 July 2022. She confirmed that external audit work was completed and confirmed an unmodified opinion. She reported on key findings and confirmed that there were no aspects to draw to the attention of the Audit Committee.

Recurrent grant income was reconciled in the financial statements to funding allocation and outturn for the year. Clawbacks were within thresholds. The ESFA no longer gave assurance for these funds and therefore external audit had undertaken some deeper review in this respect. There were 1 or 2 trivial adjustments. Ms Millar considered that to come away from a complex area with trivial differences indicated a good reflection on the systems and controls in this area. There was one note related to capital projects. Grants had been accrued correctly but there had been a need to confirm whether there was considered to be impairments in existing buildings. It was agreed with management that as buildings were being used on a day to day basis no impairment was required.

There was one note related to assumptions used within the defined benefit pension schemes valuation. The pension scheme liability had become an asset this year. Information from the actuaries had satisfied the auditors that the correct amount of asset was reported. Pension scheme assumptions has been made at Consumer Prices Index (CPI) at 2.6%. This reflected the position as was the case and whilst CPI had risen, it was considered that the long-term average view was appropriate. It was requested that a disclosure was included stating the basis on which comfort was concluded with these assumptions. Comfort on the headroom of the covenants was confirmed. Ms Millar drew attention to pages 11 and 13 of her report regarding management judgements and the pension scheme. There were specific representations on going concern that have been added to the Management Letter.

An appendix provided a summary of unadjusted errors. Total adjustments were £353k. It has since been agreed to remove £100k clawback provision and the report would be updated to reflect that. In response to a query from a Member on the quantum of materiality and what point an adjustment would not be made, Ms Millar confirmed that it was £360k. The Member further queried whether there was comfort that a post balance sheet event note was not required. She confirmed that a note would be required.

Ms Millar reported that some guidance indicated that letters of support should not be issued, for example in relation to Delamite Ltd. She was not concerned as it was not a trading subsidiary but would be seeking further clarification. It was noted that the Office for National Statistics (ONS) had only been announced in the last 48 hours.

A Member enquired as to headroom. The Director of Finance responded that it was significant with 5 different covenants.

A Member requested a copy of the Emerging Issues document. The Director of Governance would arrange this.

A Member asked if the threshold had been met. The Director of Finance confirmed exceeding 97%.

A Member noted that only 2 recommendations on control was good.

In response to a query from a Member it was confirmed that recommendation to Corporation for the position on going concern based on review of accounts was done through the Letter of Representation.

The Committee CONSIDERED the report.

## **67/22 LETTER OF REPRESENTATION**

The Committee CONSIDERED the Letter of Representation and RECOMMENDED it for APPROVAL by Corporation.

## **68/22 EDUCATION AND SKILLS FUNDING AGENCY FINANCE RECORD**

The Director of Finance reported the production of a benchmarking spreadsheet generating a financial health rating. The College was rated at the top end of Good. In response to a query from a Member she confirmed that the current energy crisis would have an effect as increased costs would reduce profit. She noted that if a new measure is confirmed debt would not be measured. This was related to the impact of the ONS reclassification.

The Committee CONSIDERED the ESFA Finance Record and RECOMMENDED it for APPROVAL by Corporation.

#### **69/22 SELF-ASSESSMENT QUESTIONNAIRE FOR REGULARITY AUDIT**

The Committee CONSIDERED the Self-Assessment Questionnaire and RECOMMENDED it to Corporation for RATIFICATION.

#### **70/22 DELAMITE LIMITED: FINANCIAL STATEMENTS 2021/22**

A Member noted that they had previously raised a query regarding there only being one director and the use of standard articles. It was confirmed that there was no traction at present in this regard. A Member raised a query regarding corporation tax and the Director of Finance confirmed that it was necessary to look into this further. The Principal noted that this would also come into deregulation.

In response to a query from a Member it was confirmed that Directors and Officers liability insurance was in place and extended to the Principal for the purposes of Delamite Ltd.

The Committee CONSIDERED the Financial Statements of Delamite Ltd for the year 2021/22 and RECOMMENDED for APPROVAL by Corporation.

#### **71/22 DELAMITE LIMITED: LETTER OF SUPPORT**

The Committee CONSIDERED the Letter of Support for Delamite Ltd and RECOMMENDED it to Corporation for APPROVAL and signature.

#### **72/22 ANY OTHER BUSINESS**

There was no other business.

#### **73/22 DISCUSSION WITH AUDITORS WITHOUT MANAGEMENT PRESENT (IF REQUIRED)**

No discussion required.

#### **55/22 ITEMS FOR MEETING 1<sup>st</sup> MARCH 2023**

Members noted the items of business for the next meeting.

#### **56/22 DATE OF NEXT MEETING**

Wednesday 1 March 2023, 16.00, College Business Centre.