

MEETING OF **AUDIT COMMITTEE**
TIME/DATE **5.00pm Wednesday 18th November 2020**
VENUE **Virtual: Microsoft Teams**

ATTENDANCE:

Committee Members	Kath Causey (Chair) Gill Edwards Susan Loudon David McDonald
External Co-opted Member	Pauline Hunter
Clerk Finance Director Vice Principal, Corporate Services Assistant Principal IT, MIS and Subcontracting	Robert Smith Steve Scott Louise Brown Dave Harrison
Internal Auditor (ICCA) External Auditor (Wylie Bisset)	Jonathan Creed Scott Gillon

MINUTES

Italics denotes absence

Item The meeting opened at 5.00pm and was quorate with at least 2 members present.		
1	A/20/11/01	CONSULTATION WITH AUDITORS Members, the Internal Auditor and the External Auditor met for initial discussions in the absence of the Executive Team and the Clerk.
2	A/20/11/02	APOLOGIES There were no apologies for absence.
3	A/20/11/03	DECLARATIONS OF INTEREST There were no declarations of interest.
4	A/20/11/04	MINUTES OF THE MEETING HELD ON 10th JUNE 2020 The minutes were approved as an accurate record of the meeting and for signature by the Chair.
5	A/20/11/05	MATTERS ARISING The Clerk advised that one matter on the committee’s Action Sheet was now complete and the remaining action was not due for completion until March 2021. The Clerk reminded members that an improvement action had been identified during the Board self-assessment process, part of which was to request that the internal auditor include health and safety within the scope of the planned Covid-19 Response Audit. The Internal Auditor agreed to add this to the scope as requested.

6	A/20/11/06	<p>INTERNAL AUDIT PROGRESS REPORT</p> <p>The internal Auditor provided an update on the two remaining audits from the 2019/20 audit cycle. These related to the Mock Funding Audit and the Follow-Up Audit. He advised that the Follow-Up Audit had reviewed eleven previous recommendations and found that ten had been fully completed and the remaining action was not due for completion until March 2021. It was noted that this recommendation related to additional provisions being added to the college's Data Protection Policy, including clarifying how subject access requests are formally identified and detailing required responses when a breach had been identified.</p> <p>The Chair sought clarification about whether the college was responding appropriately in relation to the required updates and was concerned that correct responses may not be in place due to the policy update being delayed. The Assistant Principal responded that appropriate procedures were in place for both the identification of subject access requests and responding to potential breaches, and that the policy update was simply a matter of reflecting existing practices. He also confirmed that the policy would be brought to the Audit Committee for approval.</p> <p>The Internal Auditor outlined the findings of the Mock Funding Audit and reminded members that the audit did not include apprenticeships for 2019/20 due to additional challenges posed by the Covid-19 pandemic. He advised that the design of controls was found to be 'good' and compliance with those controls was found to be 'adequate'. Members were pleased to note that the overall assurance opinion was 'substantial' with no significant weaknesses. The Internal Auditor highlighted the audit recommendations, three of which were 'low priority' and one was 'medium priority'. He advised that the recommendations related to eligibility, accuracy of source data, attendance and funding. Members noted that management had agreed appropriate actions and these would be added to the Audit Implementation Tracker to enable the committee to monitor them through to completion.</p> <p>Members considered the specific findings of each element of the audit and sought further information in relation to a finding of 16 non-compliance errors relating to study programme attendance. The Internal Auditor responded that he was not concerned about these highlighted errors as they were very minor in nature and would not have had an impact on funding if identified during and ESFA Funding Audit. He commented that the process adopted within the audit mirrored that used by the ESFA, which meant that all errors, however minor, were reported.</p>
7	A/20/11/07	<p>INTERNAL AUDIT ANNUAL REPORT 2018/19</p> <p>The Internal Auditor provided a summary of internal audit activity during 2019/20 and it was noted that the committee had previously been provided with reports for each audit, including the two audits reported under the previous agenda item. These covered:</p> <ul style="list-style-type: none"> • Capital Project Management • Key Financial Controls • Student Attendance, Retention and Intervention Strategies • External Sub-Contracting Controls Assurance • Mock Funding Audit • Follow-Up Audit <p>Members were pleased to note that, in four of the five audits where a judgment of assurance was provided, a rating of 'substantial assurance' had been provided, and that the assurance level for the remaining audit was 'reasonable'.</p> <p>The auditor drew members' attention to the Head of Internal Audit's opinion on the annual audit process. It was noted that this opinion was unqualified and confirmed that the Governing Board could be provided with reasonable assurance that the college's</p>

		<p>governance and risk management, and systems of internal control were operating adequately and effectively. He also confirmed that no significant control issues had been identified and that there had been no 'high priority' recommendations during the whole of the 2019/20 audit cycle.</p> <p>Members reviewed the audit activity against the original audit plan and noted that two planned audits had been cancelled due to the Covid-19 lockdown. These were the Employer Engagement Strategy Audit and the IT Data Security, Infrastructure and Disaster Recovery Audit. It was acknowledged that these cancellations had been agreed with the Chair and were unavoidable given the extraordinary circumstances of the Covid-19 pandemic. The Internal Auditor confirmed that, despite the cancellation of these audits, there had been sufficient audit activity upon which he could provide an overall audit opinion. A member not present at the previous meeting asked whether the auditor would normally provide advance warning if the volume of audit activity might impact on his ability to offer an overall audit opinion. He confirmed that this would always be the case and explained that he had advised at the previous meeting that the planned activity for 2020/21 would not be sufficient for an overall opinion to be provided.</p> <p>The Clerk outlined the committee's stated rationale for its selected approach to the 2020/21 audit cycle and it was noted that, in addition to maintaining a number of traditional audits, the main focus would be on how the college had responded to the Covid-19 pandemic, including the effectiveness of how adapted controls were operating. It was also noted that this approach was preferred as a focus on processes and systems that were not operating normally due to the pandemic wasn't considered to offer the best value in terms of potential assurance.</p> <p>The Chair thanked the Internal Auditor for his reports and commented that they provided members with a very clear understanding of how the audits had been carried out and what improvement actions had been identified.</p> <p>RESOLVED: That the Board be recommended to approve the Internal Audit Annual Report 2019/20</p>
8	A/20/11/08	<p>FINANCIAL STATEMENTS AUDITOR REPORT 2019/20</p> <p>The Financial Statements Auditor drew members' attention to the executive summary of his report and outlined the key financial reporting values. He also highlighted outstanding matters, including some uncertainty on final funding values due to a last-minute announcement that the college would be subject to a full ESFA Funding Audit that may complete before the due date for signing of the financial statements. It was noted that, if this were to be the case, the financial statements may need to be amended prior to submission to the Governing Board in December.</p> <p>However, it was also noted that the Internal Auditor had only recently carried out a Mock Funding Audit and that the Financial Statements Audit had included a sample-based review of the accuracy of funding claims. The Auditor commented that, whilst the internal audit did not focus on apprenticeships, the overall combined audit activity gave him a reasonable degree of confidence that there was unlikely to be significantly negative findings during the ESFA Funding Audit. He added that this meant that he remained comfortable with progressing the financial statements in line with the planned audit cycle. Members were pleased to learn that the financial statements process could continue as planned but acknowledged that it was important that the Governing Board be made aware of the risk of income values being affected by a potential funding claw-back. They also acknowledged that items categorised as 'outstanding' may need to be deleted from the report if they were concluded in advance of the Governing Board meeting.</p> <p>The Auditor confirmed that he expected to issue an unqualified audit opinion and had no issues of concern to report in relation to the regularity assurance opinion. The auditor commented that the college's financial forecasts had been tested during the audit and that</p>

		<p>he was satisfied that these were realistic and appropriate. He also confirmed that he had no concerns in relation to the college's 'going concern' status.</p> <p>The Auditor outlined the audit process for reviewing governance and internal control arrangements and reported that the audit findings indicated that the college had strong systems in place to comply with governance requirements. Members noted that the auditor had made no new recommendations within his report, although he had reinforced the need to complete the valuation of freehold land and buildings, which it was noted was already in progress. The Auditor commented that the papers and responses provided by the college's Finance Team had been both of good quality and timely. He added that this was particularly notable given the additional communication challenges presented by Covid-19 restrictions. He also commented on Wylie & Bisset's independence from the college and confirmed he was entirely satisfied that its independence and objectivity was not impaired.</p> <p>Members discussed the unadjusted errors detailed within the report and noted that the identified deviation amounted to £15,800. The Auditor confirmed his view that the cost of making these adjustments to the financial statements outweighed any benefits that would be gained by users of the accounts. It was noted that the value mainly reflected a pre-paid balance for travel that was not used due to the pandemic, and that the Auditor's view was that this was unlikely to be recovered.</p> <p>The Auditor drew members' attention to the letters of representation appended to his report, the first relating to the financial statements audit and the second relating to the regularity audit. He explained that these letters represented statements by the Governing Board to the Auditor and highlighted the importance of the Governing Board being satisfied that the statements made were accurate. He also drew members' attention to the six key risks identified within the report appendices and confirmed that he was satisfied that these risks had been sufficiently mitigated to enable the conclusion of the financial statements.</p> <p>The Co-opted Member asked whether the land and buildings valuation would impact on the audit opinion if there was a material difference compared to the currently stated values and if the valuation became available prior to signing off the financial statements. The Auditor responded that a significant difference in value was not expected as the valuation would be based on the re-build value, rather than on the likely sale value. The Finance Director added that he was not expecting the surveyor's report to be received in advance of the completion of the financial statements.</p> <p>The Chair thanked that Auditor for his report and for the comprehensive detail provided for consideration by the committee.</p> <p>RESOLVED: That, subject to any further amendments that may be required following completion of the ESFA Funding Audit, the Board be recommended to approve the Annual Report on the Financial Statements Audit for the year ended 31st July 2020.</p>
9	A/20/11/09	<p>ANNUAL REPORT & FINANCIAL STATEMENTS 2019/20</p> <p>The Finance Director advised that the financial statements had been produced under the standard ESFA model, as used in the previous year. He outlined the reported detail on governance, including member attendance, which was 80% on average for Governing Board and committee meetings. He also outlined the reported detail on governance arrangements, control processes and risk management. Members noted the Financial Statements Auditor's expected unqualified opinion for both the Financial Statements Audit and the Regularity Audit, as discussed under the previous agenda item.</p> <p>The Finance Director outlined the key financial values detailed within the financial</p>

		<p>statements, including overall college income of £31.2M and overall expenditure of £30.7M. Members noted that this had produced an operating surplus of £515K. The Finance Director also drew members' attention to the college's balance sheet and cash-flow summary. Members were pleased to note that the college had been able to maintain very positive cash-flow, despite the challenges of the Covid-19 pandemic. The Chair commented that this demonstrated the Executive Team's ability to respond quickly to changes in circumstances and to put in place additional financial savings when shortfalls in income were identified.</p> <p>Members reviewed the detailed financial picture outlined in the financial statements, including income sources and values, staff costs and other operating costs. The Finance Director commented that, given the Covid-19 challenges, 2019/20 had been a very good year financially and would result in the college's financial health analysis increasing from 'good' to 'outstanding'. However, he explained that this was largely due to additional caution being in place in terms of expenditure on curriculum, estates and IT investments. It was noted that this was not likely to be the case in 2020/21 and that the college's financial health was expected to return to 'good'. The Chair asked whether the change to 'outstanding' financial health had been only due to the decision not to carry out additional expenditure at the end of the year. The Finance Director responded that this was the main reason, although the debt ratio of most colleges had also improved because bank lending in the sector had virtually ceased.</p> <p>The Finance Director explained that the financial statements were normally expected to reflect the same or very similar values to the July management accounts and confirmed that this was again the case in the current year. However, it was noted that FRS102 adjustments were treated differently in the management accounts compared to the financial statements. Members discussed the forecasting activity that took place during the year, including significant adjustments when the pandemic lockdown arose in March 2020. It was noted that the college had then performed better than expected, leading to a more positive revised forecast later in the year. The Finance Director commented that the final position had turned out to be very close to the original budget set in July 2019. The Chair commented that the college had faced significant financial performance challenges during the year and the end result was a credit to the hard work and flexibility of everyone at the college.</p> <p>RESOLVED: That, subject to any further amendments that may be required following completion of the ESFA Funding Audit, the Board be recommended to approve the Annual Report & Financial Statements 2019/20 and the associated Letters of Representation for signature by the Chair of the Governing Board and Accounting Officer as required.</p>
10	A/20/11/10	<p>REGULARITY AUDIT QUESTIONNAIRE</p> <p>The External Auditor presented the draft Regularity Audit Questionnaire and outlined the college's proposed responses. It was noted that this was a self-assessment document, which would need to be signed off by the Chair of the Governing Board and the Principal. It was also noted that the questionnaire formed the starting point for the Regularity Audit. The External Auditor advised that he had reviewed the college's stated evidence and had carried out sample testing to check compliance with internal controls, such as tendering arrangements and financial approvals against stated authority levels. The Auditor also commented that the questionnaire provided a good reflection of the college's position in terms of regularity activity and the controls within which the college operated.</p>

		<p>The Finance Director commented that both the Regularity Audit and the Financial Statements Audit had been as robust as in previous years despite the need to complete the audit activity remotely due to the pandemic. The Auditor added that the audit regulators had insisted that the pandemic should not be allowed to lead to more light touch or less robust audit procedures.</p> <p>RESOLVED: That the Board be recommended to approve the Regularity Audit Questionnaire for signature by the Chair of the Governing Board and Accounting Officer as required.</p> <p>The External Auditor left the meeting at 6.20pm</p>
11	A/20/11/11	<p>AUDIT IMPLEMENTATION TRACKER</p> <p>The Clerk outlined outstanding audit actions and it was noted that 7 of the 11 recommendations within the report had now been fully implemented. It was also noted that the remaining 4 recommendations were not yet due for completion. The Clerk commented that it was a positive assurance that the audit tracker had reflected the Follow-Up Audit for a number of years as this indicated that audit recommendations were not being removed from the tracker unless it was clear that the action had been completed.</p>
12	A/20/11/12	<p>ANNUAL RISK MANAGEMENT REPORT TO THE GOVERNING BOARD</p> <p>The Finance Director advised that the annual report to the Board was simply a year-end snapshot of the risk position and reflected the position reported to the Audit Committee in June 2020 which remained unchanged at the end of July 2020. It was noted that the year-end position demonstrated a very high risk position due to the Covid-19 pandemic, although it was acknowledged that the position had improved since year end, which would be reflected in the latest edition of the Risk Register to be reviewed under the next agenda item.</p> <p>RESOLVED: That the Annual Risk Management Report for 2019/20 be approved for presentation to the Board.</p>
13	A/20/11/13	<p>REVIEW OF RISK REGISTER</p> <p>The Finance Director explained that the 16 areas identified in the current Risk Register were the same as those stated at the end of July 2020. However, it was noted that the risk intensity had reduced for some of the risks. Members were pleased to learn that the most serious risks had been re-assessed as now being more manageable.</p> <p>The Finance Director explained that the Executive Team and other management levels had held between 30 and 40 meetings focused on how the college should respond to Covid-19 risks. It was noted that this had helped improve the risk position through sensible mitigation actions. It was also noted that some risks had reduced following generally positive responses from funding bodies in relation to a number of serious funding risks identified at the start of the lockdown. The Chair commented that it was encouraging to see the way in which risks had been mitigated.</p> <p>The Co-opted Member asked what student recruitment levels had been achieved at the start of 2020/21. The Finance Director responded that recruitment had been strong and</p>

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		that areas of lower than usual recruitment, such as apprenticeships, had been replaced with higher than usual recruitment in other areas. The Vice Principal commented that recruitment had held up well, especially as the risks to recruitment appeared very significant at the time of the lockdown and it had been difficult to accurately or confidently predict recruitment levels in each area of activity. The Chair suggested that the way in which enrolment had been handled had made a significant difference to recruitment volumes, especially in the way enrolment had been adapted to include the use of evenings and weekends to offer more flexibility. The Vice Principal concurred with this observation and commented that college staff had gone significantly over and above the call of duty, and their willingness and positivity had made a real difference.
14	A/20/11/14	<p>AUDIT COMMITTEE ANNUAL REPORT 2018/19</p> <p>The Clerk outlined the content of the draft report on the activities of the committee during 2019/20. He highlighted key areas of the report, including those relating to committee opinion and asked members if they wished to comment. Members discussed the report content in detail and noted the inclusion of the audit opinions relating to the Internal Audit Annual Report, the Financial Statements Audit and the Regularity Audit.</p> <p>Members reviewed the report conclusions and the opinions and recommendations detailed within them. It was noted that these included adequacy of the college's assurance framework and the effectiveness of controls in terms of supporting the effective and efficient use of resources, the solvency of the college and the safeguarding of its assets. It was also noted that the conclusions stated that control arrangements were adequate to permit the Chair of the Board and the Accounting Officer to sign the Statement of Corporate Governance and Internal Control, the Statement of Regularity, Propriety and Compliance and the Statement of Responsibility of the Members of the Corporation.</p> <p>The Clerk drew members' attention to the External Audit opinions detailed within the report and highlighted in yellow. He explained that these had been highlighted as they were draft statements pending receipt of the final version of the External Auditor's report. Members noted that minor changes would be required to both the Financial Statements Audit opinion and the Regularity Audit opinion, in that both needed to be amended from stating there were "no qualifications" in the audit opinion to stating that "we anticipate no qualifications". The Clerk agreed to amend the report prior to presentation to the Governing Board.</p> <p style="text-align: right;">Action: Clerk</p> <p>RESOLVED: That, subject to the minor amendments detailed above, the Board be recommended to approve the Audit Committee Annual Report 2019/20</p>
15	A/20/11/15	<p>ANY OTHER BUSINESS</p> <p>There was no further business.</p>
		DATE AND TIME OF NEXT MEETING – 5pm Wednesday 3 rd March 2020
		The meeting closed at 6.45pm