

**Corporation Board of Accrington and Rossendale College**

**Minutes of a Meeting of: The Audit Committee**

**Date: 10<sup>th</sup> November 2015**

**Location: The Conference Room, Heartwood Centre**



**Confirmed**

**Members Present:**

Mrs R Andrews	Chair of the Committee and Independent Member
Mrs S Bridgeman	Independent Member
Mrs L Gaskell	Independent Member

**In Attendance:**

Mr S Ireland	Vice Chair of the Corporation Board and Independent Member
Mrs S Taylor	Principal
Mrs S Collinge	Vice Principal ( Business and Innovation)
Mrs J Love	Grant Thornton
Mrs K Musgrave	RSM UK
Mr A Armiger	Clerk to the Corporation

**Apologies were received from:**

Mr S Hughes	Independent Member
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	Date:
Draft Minutes Prepared by: AA	11-11-15
Draft Minutes approved by the Chair: RA	15-11-15
Minutes Approved by the Committee:	01-03-16

.....*Rosemarie Andrews*.....

Chair

The Chair welcomed Members and Auditors to the meeting, Mr Ireland who was attending in support of the committee and Mrs Taylor who had been invited to attend the meeting.

## **AC**

- **15/16-1.1 Apologies for Absence**  
Mr Hughes had sent apologies for his absence

- **15/16-1.2 Declarations of Interest**  
There were no declarations of interest

- **15/16-1.3 Minutes of the Meeting held on 3<sup>rd</sup> March 2015**

**Resolved AC 15/16-1.3: To approve the minutes of the meeting held on 9<sup>th</sup> June 2015 as being a true and accurate record of the meeting**

- **15/16-1.4 Matters arising not otherwise on the Agenda**  
Referring to the record of resolutions with actions required the Clerk advised members that the two actions required to be have been taken following the meeting on 9<sup>th</sup> June had been completed

**Resolved AC 15/16-1.4: To note the actions taken following the meeting on 9<sup>th</sup> June 2015**

- **15/16-1.5 Financial Statements for the Year Ended 31<sup>st</sup> July 2015**

Mrs Love from Grant Thornton presented the Draft Financial Audit report to members which they received prior to the meeting. Mrs Love informed members that she intended, with their permission, to focus on section 3 of the report with particular regard to the College as a 'Going Concern'. Other than this particular area Mrs Love advised that there had been a clean audit and had followed the audit plan.

Mrs Love advised members that the audit team looked every year at the position of the college as a going concern and that this entailed looking forward, in this case to December 2016, using budget and cash flow forecasts. For this audit it also included any impact of loan refinancing and the College's ability to meet it loan covenants.

Mrs Love informed members that as yet the auditing team had been unable to make a conclusion with regard to the matter. There were several factors in this and they included the fact that the College would require significant additional funding to finance its cash flow in January to April 2016 and again in December 2016 to April 2017. Mrs Love noted that the auditors were aware of continuing negotiations between the College and Lloyds and Barclays Banks and also the Skills Funding Agency (SFA) with regard to a proposed claw back of funding.

Mrs Love noted that there were still various options open to the auditors in their final conclusions, but Mrs Love explained that one option may include an 'Emphasis of Matter' paragraph in the audit report dependent on the adequacy of disclosures made by the College. The paragraph may state that due to the factors regarding the College deficit,

cash flow forecasts and increased overdraft requirement at certain parts of the year there is a material uncertainty which may cast a doubt on the College's ability to continue as a going concern.

Members considered the situation and its effect on the signing off on the Financial Statements for the Year ended 31st July 2015 and whether this could be done on or before the date required by the SFA of 31st December 2015. It was noted that the Chair of the Board and the Chief Accounting Officer could only sign them off if the Board was fully confident that the College was a going concern.

Members began their questioning of the Principalship and Mrs Love. The Chair began by asking if the SFA had come back to the College with regards to the re-profiling of the funding claw back. Mrs Collinge replied that they hadn't yet contacted the College with that information. Mrs Collinge went on to advise members that Lloyds Bank have been very supportive and it may be that they will be able to reschedule their loan and extend the College's overdraft facility to be able to meet the cash flow short falls during the times already stated.

Mrs Taylor advised members that Barclays Bank had mentioned during discussions that that it may, at some point, require an Independent Review of the College Governance. It was noted that this would be expensive and time consuming, so it was hoped that this would not have to happen. Mrs Taylor advised that she would keep members up to date with this possible situation.

Mrs Collinge went on to note that members need to consider that there was, unfortunately, in the very near future another impending Government Spending Review and dependent on the outcome of that the SFA's hands may be tied as to what help they can offer.

Mrs Love advised that from her experience in the sector, that the banks really want the SFA to deal with the current situation across the sector, but again future spending cuts may make this impossible. Mrs Taylor informed members that the College's SFA contacts did not feel the College asking for the claw back re-profiling was unreasonable, but again until the Spending Review was announced and its impact assessed the situation was at a stalemate. Members were informed that the SFA had in the past made exceptional loans to colleges to ease financial hardship, but these loans had not been repaid, again putting strain on the SFAs ability to help.

Returning to the audit report Mrs Love advised members that a final decision could not yet be made as to the matter of 'Going Concern' as there was still more work for the auditors to carry out, but it was very important that this Committee and the Corporation Board understand the full position before they take the decision to sign, or not yet sign, the audited Financial Statements.

The Clerk advised that it would be best, although the Resources Committee would also be scrutinising the Financial Statements at its meeting on the 24th November 2015, that the

full Board considers the position at its meeting on the 10th December 2015 before making a decision to either sign the statements or delay their signing. Members agreed and

**Resolved AC 15/16-1.5A: that the Audit Committee advises that the Audited Financial Statements for the Year ended 31st July 2015 be considered by the the full Corporation Board at its meeting on 10th December 2015 prior to a making a decision as to whether to approve their signing by the Chair of the Corporation Board and College Chief Accounting Officer (the Principal)**

Mrs Love advised that she would be available to attend the meeting on the 10th December if the members believed it would be useful to them. The Clerk advised that he would inform the Chair of the Corporation Board of the offer and confirm with Mrs Love as soon as possible.

Moving on members considered the Financial Statements document and commented on small errors for correction.

The Vice Principal (Finance and Corporate Services) presented the Annex C: Self-assessment questionnaire regarding Regularity. Mrs Love advised that the Financial Auditors have always considered the question of Regularity in the Financial Audit report, but because of recent reporting changes it is now a requirement that this is signed by the governing body. The College must consider the question and provide the reporting accountants with a copy of the self- assessment to inform their work. Members considered the document and the College responses to the requirements and questions and

**Resolved AC 15/16-1.5B: that the Audit Committee approves the signing of the Annex C: Self - assessment document by the Chair of the Corporation Board and the College's Chief Accounting Officer (The Principal) as of 10 November 2015 and that a copy be provided to Grant Thornton as reporting accountants.**

The Vice Principal (Finance and Corporate Services) then presented a report to members on the rationale for the College continuing as 'Going Concern' This paper had drawn together the factors affecting the College in terms of its status as a Going Concern and informed members of the actions being taken to mitigate the concerns and risks presented in the paper. Mrs Love advised that she had asked for the preparation of the report to ensure that members had a full view of the current situation. Members stated that the paper was useful and an updated version of it presented to the full Board to assist in its discussions on the 10th December. Following additional questions on the paper members

**Resolved AC 15/16-1.5C: that an updated version of the Going Concern Rationale report be presented to the Corporation Board at its meeting on 10th December 2015 to aid members in it decisions regarding the Audited Financial Statements for the year ended 31st July 2015**

The Chair thanked Mrs Love for her reports

• **15/16-1.6 Internal Audit Annual Report for the Year Ended 31st July 2015**

Mrs Musgrave presented her report by advising members of the Committee that it provided a summary of the internal audit work carried out through the 2014/15 academic year. Four audits had been carried out as per the Board approved plan guided by the members of the Committee. All audits had received Substantial assurance and there had only been a total of 6 low priority risks identified across the four audits.

From the report members were informed that RSM UK (formally Baker Tilly) were satisfied that sufficient internal audit work had been undertaken to allow RSM UK to reach a conclusion that the College has adequate and effective governance, risk management and control processes to achieve its objectives. Members

**Resolved AC 15/16-1.6: to note the report and the Audit Opinion and Operational Assurances contained within it.**

• **15/16-1.7 Internal Audit service Follow up Report 2014/15**

Mrs Musgrave of RSM UK presented her report noting that it informed members of the recommendations made in 2013/14 and whether they had been satisfactorily actioned by the College. Mrs Musgrave noted that of the 12 recommendations made in 2013/14 (3 High risk, 2 Medium risk and 7 Low risk) all 12 had been satisfactorily implemented. Members were advised that one recommendation made during an audit of College apprenticeship work concerning the introduction of the 'OneFile' system would be audited as part of the 2015/16 Audit Plan. Members

**Resolved AC 15/16-1.7: to note the report and the actions taken by the College with regard to Internal Audit Recommendations**

• **15/16-1.8 Audit Finding Monitoring Report**

The Vice Principal (Finance and Corporate Services) presented her report providing information on recommendations made during both Internal and Financial Audits.

Mrs Collinge noted that there was currently one recommendation made during the 2014/15 Financial Audit concerning journal processes and that this recommendation had been actioned by College Management.

It was noted that Mrs Musgrave had reported on internal audit recommendations and Mrs Collinge informed members that there had been no internal audits fully completed to date and so there were no current recommendations for 2015/16. Members

**Resolved AC 15/16-1.8: to note the report**

• **15/16-1.9 Audit Finding Monitoring Report 2014/15**

This item had been dealt with as part of the previous item

• **15/16-1.10 Investigation into Underachievement of 2014-15 Income Targets**

The Vice Principal (Finance and Corporate Support) presented her paper and asked that members consider her paper alongside item **15/16-1.13 - Internal Audit – Cash Flow Forecasting (Draft)**

Mrs Collinge advised members that the report had been difficult to write as the situation was complex and a lot of the issues and actions required pervaded many areas of the college and it was challenging to try and capture that complexity. Mrs Collinge informed members that in summary there were two significant reasons for the underachievement; The Colleges inability to achieve the planned levels of funding; and the Colleges inability to provide accurate in year forecasts. Mrs Collinge went on to explain in more detail both areas and presented an action plan which had been developed to deal with the issues contributing to the 2014/15 deficit. Mrs Collinge also advised that part of a planned internal audit regarding College Budgeting and Forecasting, to be undertaken by College's Internal Auditors RSM UK, was brought forward and the draft was presented to members (15/16-1.13).

In summary, Mrs Collins highlighted several issues in the report that contributed to the 2014/15 deficit. These included:

- Target setting process, followed very closely by recruitment and monitoring issues.
- Targets that are set need to be realistic and achievable and the Board should challenge and actively monitor the realism and actual achievement of the targets.
- Budgets should be based on the actual income likely to be achieved rather than the potential for growth.

Mrs Collinge stated that it was felt in the College that better forecasting may not have actually prevented a deficit, due to complex external factors, but it was a contributing factor.

Members were also advised that:

- The College would be required to make additional saving in year 2015/16
- The College will have to review the target relating to the 'Outstanding' grade currently in operation
- The Board should review the overall sustainability of the college in light of reductions in recruitment and therefore in the associated grant income.

Members began their questioning. Mrs Bridgeman asked what had happened this year to influence the poor forecasting. Mrs Collinge replied that it seems that the complex funding streams were too difficult for the Heads of Faculties (HoFs) to deal with. Changes have been made this year and the HoFs are better equipped to deal with funding issues. It was realised that moving some managers to other areas had caused problems in the areas they had been moved from. Serious lessons had been learnt for future decisions.

Mrs Andrews asked if managers had all the information they need to be able to make forecasting and in year decisions. Mrs Collinge replied that the Curriculum Funding and

Development Group (CFDG) was new last year and not sufficiently target driven. The groups work is now more co-operative with HoFs working together to solve funding and forecasting problems.

Mrs Andrews asked if the SLT had not had enough rigour in challenging unrealistic curriculum and funding forecasts. Mr Ireland asked if there had possibly been an 'ostrich' attitude which gave rise to mistakes. Mrs Collinge said that this may have happened, but certainly not across the board. Mrs Taylor advised that some targets were not achievable even though they were only slightly adjusted for growth from the previous year. The College also continued to look for the post-Christmas 'boom' that it had experienced year on year for several years, but it did not come in 2014/15. It was also felt that some teams had not recognised 'boom and bust' curriculum changes and their resources were either not available to capture the 'boom' or the area was over resourced following a 'bust' decline in potential students.

Mrs Andrews asked if the College now had trust in the underlying information sources, and the Colleges ability to use them, to recognise where there is growth or decline in curriculum. Mrs Taylor said that previously there had probably been too much trust in Curriculum team's expertise to recognise changes and this would be monitored more rigorously in future. Mrs Taylor went on to say that even though change may not have always been recognised, other factors such as funding cuts and increasing competition have played a hand in creating the deficit. The College was in the process of reviewing targets again for the current year.

Mrs Andrews then expressed her concern at the College having recently lost the Director of Finance who had moved to another College and asked what resource had been put in place to carry out her role. Mrs Collinge confirmed to members that she was presently carrying out that function. The college had not at the time wanted to replace Mrs Jarvis as it was felt that a replacement may not understand the FE sector as well as Mrs Jarvis or Mrs Collinge and 'eyes would be taken off the ball' at a critical time. The position is still under review.

Mr Ireland asked what it was felt were the top two learning points from the current situation. Mrs Collinge replied Rigour and Communication. Mrs Taylor added that it was now realised that the SLT need to be challenging of evidence supplied to them in the future.

Mrs Andrews asked if the Resources Committee were supplied with sufficient and timely information to carry out their terms of reference. Mrs Collinge advised that members of that committee (whose Chair is the Chair of the Corporation Board) would in future be provided with monthly management accounts with updated forecasts along with the revised 'rolling cash flow'. Mrs Taylor said that this would allow, for both the SLT and Board Members, recognition of prioritised sensitivities through the year and therefore allow rigorous challenge and action

Mrs Collinge moved on to say that she would be considering the wording of the management accounts in future to ensure the understanding of all those reading them.

Referring to the Action Plan in Mrs Collinge's report Mrs Gaskell asked if all members of the College SLT has bought into the actions that needed to be taken. Both Mrs Taylor and Mrs Collinge confirmed that this was the case. Although the Action Plan is monitored by the Principalship all members of the SLT are aware of their responsibilities within the plan and will be disseminating actions and delegating tasks to other college managers as and when appropriate.

Mrs Love suggested that Scenario Analysis was a powerful management tool that would help SLT and other College managers to make decisions. Mrs Collinge said that she would discuss this with Mrs Love at an early opportunity.

In summary, Mrs Collinge said that the College had, itself and from information provided by the Cash-flow Audit, recognised faults and mistakes alongside a range of complex external factors which had led to the increased deficit in 2014/15 and that an action plan was in the process of being enacted. It was hoped that the report action plan provided would give members the assurance they need to see that the Principalship, SLT and other College managers were doing all that they can to prevent reoccurrence of previous errors and that this will allow the College to return to a position of financial security. Following final discussion members

**Resolved AC 15/16-1.10: to note the report, the issues raised within it and the action plan contained within it**

- 15/16-1.11 **Risk management plan Action Plan 2014/15 – Final Outcomes; and**
- 15/16-1.12 **Risk Management Plan 2015/16**

Mrs Collinge presented the two documents. Discussion moved quickly to the content and purpose of the documents. It was generally felt by the Principalship and Members that the Final Outcome document had become too cumbersome and whilst the risks and actions to be taken identified were relevant some of the reporting of progress was lacking in rigour and presented a positive light when a more challenging or informative response may have been appropriate.

It was suggested that a document highlighting the high risks (and possibly also the medium risks) and actions taken against them should be presented to the committee rather than the full document so that the committee could focus on these areas. Mrs Gaskell advised that although this may be useful care should be taken to ensure that by focusing on the high risks the low risks are not left unchecked to grow into higher risks.

Mrs Andrews suggested that a more evidence of action based format may be useful to the College and the Committee.

Mrs Bridgeman advised that the culture of risk management should pervade the whole college, particularly in the complex environment the FE sector currently exists in, and the risks should be owned by the college management not individuals. The Principalship



advised that it would look to see if there was some other way to present the risks identified and action being taken to minimise those risks to the Committee.

Members considered the Final Outcomes for 2014/15.

Moving on to the Risk Management Plan for 2015/16 members agreed that the risks identified were appropriate to the Strategic Aims and Objectives and that the proposed actions were also appropriate. Following final discussions members

**Resolved AC 15/16-1.11: To note the final progress outcomes of the 2014/15 Risk Management Action Plan**

**Resolved AC 15/16-1.12: To recommend to the Corporation Board the approval of the risks identified against the Strategic Aims and Objectives, and the actions to be taken to minimise those risks, in the 2015/16 Risk Management Plan**

**• 15/16-1.13 Internal Audit Reports – A) Cash Flow Forecasting [Draft]**

This item was dealt with as part of item 15/16-1.10

**Resolved AC 15/16-1.13: i) To note the issues presented within the draft report; and ii) that the final report will be presented to the Audit Committee at its meeting in March 2016**

**• 15/16-1.14 Audit Committee Annual Report 2014-15 (Draft)**

The Clerk presented the draft of Audit Committee Annual Report 2014-15, which he reminded members was required to be presented to the Corporation Board and the College's Accounting Officer (The Principal) to inform them of the Committee's advice with regard to the adequacy and effectiveness of the College's risk management, control and governance processes and to advise them of any significant matters arising from the work of the Internal Audit Service and Financial Auditors. Mr Armiger also advised that it was primarily a high level summary of all the work of the auditors and their findings

Members noted that the format had changed slightly from last year and that more information was provided about the Governing body as a whole rather than just the Audit Committee.

There were two areas to be discussed to allow the document to be completed and members moved on to the first of those, that being the review of the Committee's effectiveness against its terms of reference. Members had been asked prior to the meeting to consider the committee's work against its terms of reference using a self-assessment document. Those present agreed that in year the committee had fulfilled its terms of reference. Discussion turned to the committee providing robust challenge. This subjective area was not a part of the self-assessment document. Mrs Love suggested that this should be looked at for future years and Mr Armiger agreed to work on this. Members felt that they had provided robust challenge through the year and that this could be evidenced in the minutes of the meetings. Members concluded that they were in

agreement that the statement at point 3.5 of the document was correct as presented and should form part of the final report.

Members moved on to the statement at 9.1 of the document relating to the report's conclusion. There was debate around the members, given the matters discussed at Items 15/16-1.5 and 15-16-1.10, as to the wording of the statement to be made at point 9.1. The auditors present gave their advice and after final discussions it was agreed by those members present that the wording as presented should form part of the final report.

Mrs Love asked that one line at point 5.4 be removed as it was not factually correct at the present time. Mr Armiger agreed to action that before presentation to the Corporation Board.

After final discussion members

**Resolved AC15/16-1.14: that the final Audit Committee Annual Report 2014-15 be presented to the Corporation Board and the College's Accounting Officer at the Corporation Board's meeting on 10th December 2015**

- **15/16-1.15 Date and Time of Next Meeting**  
8.30am on Tuesday 1st March 2016

The Chair thanked Members, Mrs Taylor, Mr Ireland, Mrs Love and Mrs Musgrave for attending the meeting

**The Meeting closed at 10.50am**