



## **BOARD OF GOVERNORS**

### **AUDIT COMMITTEE**

Minutes  
Wednesday 29 November 2023 at 5pm  
Online via Zoom

		<u>Meeting Attendance</u>
PRESENT:	Jo Croft	(2 out of 2)
	Nathan Garat	(1 out of 2)
	Tony Haines	(2 out of 2)
	Rob Lewis	(2 out of 2)
	Ian Thomson	(2 out of 2)
IN ATTENDANCE	Gillian May (Group Principal & CEO)	
	Richard Munday (Deputy CEO)	
	Tracy Reeve (Director of Governance)	
	Sarah Mason (RSM UK Audit LLP)	

## **PART I**

<b><u>MINUTE</u></b> <b><u>No</u></b>		<b><u>ACTION</u></b>
1.	<p><b><u>Chair's Agenda Item</u></b></p> <p>The meeting was preceded by a closed session with Governors and the external auditor. This discussion was not minuted but the Committee did discuss the need to review the Corporation's Risk Appetite early in 2024 and how ongoing 'red' risks on the Risk Register – due to external influences and lack of possible mitigation – were treated on the Risk Register.</p> <p><b><i>ACTION: Review of Risk Appetite and ongoing red risks to come to Audit Committee in March 2024.</i></b></p>	<b>CEO</b>
2.	<p><b><u>Apologies for Absence</u></b></p> <p>There were no apologies. The Director of Governance (TR) confirmed that there would be no representative from internal auditors Mazars attending the meeting. The Chair welcomed Sarah Mason, external audit lead from RSM to the meeting.</p>	
3.	<p><b><u>Declarations of Interest</u></b></p> <p>No Member declared a conflict of interest with the agenda.</p>	
4.	<p><b><u>Minutes of the Previous Meetings</u></b></p> <p>The meeting considered the minutes of the TWFCG Audit Committee meeting of the 20 September 2023. These had previously been circulated to all members and <b>were agreed as a true record. They would be taken as signed by the Chair.</b></p> <p><b>All Members were agreed.</b></p>	
5.	<p><b><u>Matters Arising of the Previous Meetings</u></b></p> <p>The Director of Governance presented a report which confirmed that all matters arising had been actioned or were on track for timely completion when due. The meeting was pleased to note that the new Head of IT would be taking up post on 4 December 2023.</p> <p><b>The Report was NOTED.</b></p>	

- **Review of Learner Numbers – Internal Audit (Mazars)**

The Deputy CEO presented an updated summary of progress made with the recommendations from this internal audit review. He assured the meeting that these would be included in future 'Outstanding Audit Recommendations Reports' to the committee. Governors (RL) asked for a hard copy of this report to be emailed as the version in the pack of papers was in too small a typeface to be clearly legible.

**NOTED**

**ACTION:**

- i) **Hard copy of this report to be emailed to governors.**
- ii) **Attention to be paid to format of future reports to ensure they were clearly legible.**

**ITEMS FOR DECISION/ APPROVAL**

6. **Internal Audit Annual Report from Mazars**

The meeting noted the internal audit report from Mazars which was presented by the Deputy CEO (RM). The meeting noted that the Annual Report from Mazars did not contain any 'opinion' in terms of assurance as the planned internal audit programme had not taken place. Due to the pressure of merger work within the Finance Team there had only been two audits undertaken, looking at Payroll and Learner Numbers.

***The meeting NOTED and RECEIVED the internal audit annual report from Mazars***

7. **Internal Audit Strategy 2023/24**

RM presented a paper which outlined the final draft of the internal audit plan for 2023/24. It was noted that this was now agreed with Mazars. RM confirmed that the proposals had taken into account a number of factors, including the College's latest strategic plan and risk register 2023/24, the previous internal audits carried out in the College and the experience of the range of audits and their findings at other Colleges. The planned programme of work for 2023/24 being suggested by the Executive Team was as follows:

- Student Funding and Learner Numbers (ILR), to be completed in spring/ early summer 2024
- Bursary and financial support for learners, to be completed in March 2024
- Financial Management and Reporting Systems, based on January Management Accounts, to be completed in April 2024
- Key financial controls (purchasing and procurement) to be completed by April 2024
- Safeguarding practice (assessed through Leaders in Safeguarding), to be completed in January/ February 2024
- Review of cyber security processes and procedures

The meeting noted that it had not been possible to get the Purchasing and Procurement audit done before Christmas due to the pressure of work with the Financial Statements Audit and the ESFA Funding Audit. However, this would be a priority for 2024. RM confirmed that the proposed plan would involve 40 days of Mazars' time, which was in line with the initial plan for 2022/23. Audit Committee members were reminded that the actual number of audit days used in 2022/23 was less than this because staff had been heavily involved with post-merger work that took longer than originally expected. RM informed the meeting that when the new internal and external auditors were appointed - from 1 August 2024 - he would work with them to put together a longer-term plan and strategy for internal audits over a three-year period. The Chair asked that future reports on internal audit provision should include reference to the cost of the audit contract.

***Members NOTED the report and APPROVED the proposed internal audit coverage 2023/24.***

**ACTION: The final IAS Strategy 2023/24 to be taken to the Board for approval in December 2023**

**Refer to Board**

**TWFCG: External Audit Management Report & 2022/23 Financial Statements****➤ TWFCG Financial Statements 2022-23**

The Audit Partner for RSM UK Audit LLP (SM) who had led the external audit 2022/23 presented the College's financial statements. Members noted that the narrative within this document was still in draft format but the numbers had now all been finalised and were very unlikely to change. Members were advised that the current financial position presented was an operational deficit of £1.048m excluding FRS102 charges.

SM confirmed that the additional burden of the merger and the new requirements of the ONS reclassification meant that the accounts were not yet fully complete. However, she confirmed that her team did not foresee any problem in finalising the financial statements in advance of them being presented to the Board for approval (13 December). The meeting was informed that the only thing that was not yet fully confirmed was the outcome of the ESFA Funding Audit; although verbal feedback had indicated that there would be no material clawback this was not yet formally confirmed. SM highlighted that the accounts had been constructed on a merger basis i.e. as if the two colleges had been together forever; the prior year figures were the pre-merger WFCG plus BCA. The Deputy CEO confirmed that the final report on the Funding Audit was expected from PWC on 1 December 2023 and the indications were that there would be some management letter points but no funding clawback.

The meeting went on to consider the numbers within the accounts in detail and the accompanying notes. The Deputy CEO highlighted the following:

- The Statement of Comprehensive Income (SoCI) – effectively the I&E - was based on the July 2023 closing position and reflected the EBITDA (this measure was now used rather than operating surplus/ deficit).
- The outcome position on the SoCI was lower than the prior year due to merger costs, higher energy costs (£433k), and the fact that in 2021/22 the legacy WFCG received £741k income for access rights at Strode's College.
- Reserves increased by £6m in the year; there had been a favourable movement in the LGPS deficit (+ £9m).
- Cash was £2m lower than the prior year which was explained by the cashflow statement.
- The final Restructuring Costs in relation to the merger would be significantly more than currently shown @ £926,000; this was not an increase but reflected movement between lines.

The meeting discussed the detailed schedule in relation to severance payments within Note 8 on page 45 of the financial statements as this was a very sensitive and important table which had become even more important post-ONS reclassification into the public sector. SM confirmed that this was an important table which was also referenced in the Strategic Report narrative. The meeting agreed that they needed to see a finalised set of Financial Statements with a complete narrative in advance of them recommending them to the Corporation. The meeting discussed the relative roles of the Audit Committee and the Resources Committee within the external audit process and the Director of Governance confirmed that it would be the Audit Committee who recommended the Financial Statements for approval. RM informed the meeting that at Resources Committee held the previous day (28 November) it had been agreed that a complete version of the narrative and numbers would be circulated to Resources Committee members and Audit members by close of play on Friday 1 December. Any comments and questions could be taken before Wednesday 6 December. This would allow oversight of the final version and enable the recommendation for approval from Audit Committee when the Financial Statements were taken to the Board on 13 December.

- **Going Concern Judgement**

The meeting sought confirmation on the Going Concern judgement and the Deputy CEO (RM) confirmed that RSM had not raised any issue in relation to this judgement. RM confirmed that the reforecast budget 2023/24 and plan 2024/25 had been submitted to RSM to inform their judgement.

The Chair thanked the external auditors at RSM and all of the Finance Team at TWFCG for their work to date on the external audit which had been more complicated this year.

**Members REQUESTED a clean version of the Financial Statements with a confirmed narrative to be circulated to all Audit Committee members before they could agree to recommend the Financial Statements to the Board for approval.**

**ACTION: Final version of Financial Statements to be circulated to Audit Committee Members (and Resources Committee Members) by Friday 1 December 2023.**

**RM/ TR**

➤ **Audit Findings Report**

The meeting considered the Post-audit Management Report provided by RSM which – subject to completion of a number of outstanding items – was anticipated to provide an unqualified audit opinion on both the Financial Statements audit and the associated Regularity Audit. SM highlighted the few outstanding items that would need to be finalised before the accounts were submitted the main one of which related to the ESFA Funding Audit. RM reminded the meeting that the ESFA funding audit being undertaken by PWC was a random selection of colleges – TWFCG had not been 'chosen' for the last 10 years. The report from PWC was expected week commencing 4 December and this would be brought to the next Audit Committee meeting in March 2024. RM highlighted the considerable additional work involved for the College MIS Team and asked for a vote of thanks to the Head of MIS (DB) and his team to be recorded. The Chair sought confirmation on whether being chosen for this audit 2022/23 meant it was less likely to happen in future years but the CEO confirmed that the 'random' selection meant this could not be relied upon.

SM confirmed that the other items yet to be finalised were: holiday pay accruals; testing income through student records (there were a couple of queries but no issues); the Regularity discussion with the Chair of the Corporation. SM highlighted the potential audit, accounting and regularity issues identified at the audit planning stage: income recognition; management override; completeness of other income; pension scheme liability; going concern; regularity (including reclassification to the public sector); and accounting for the merger between BCA and TWFCG on 1 August 2022. There had been no issues identified against these key risk areas during the audit. The audit had identified adjusted audit misstatements of £317,884 relating to pre-year end invoices.

SM confirmed that there had been no significant deficiencies with internal control identified during the audit but there were five recommendations on controls (none of which were categorised as significant). The meeting noted the detail of these five recommendations which had been accepted by management and SM highlighted that the management responses had been helpful and detailed. The Audit Committee members were pleased to note that there had been nothing to report around management override of controls or any deficiencies in internal control. The meeting considered the internal control environment in more detail and agreed that the planned and executed internal audit process provided a high level of rigour and external assurance for Governors. SM asserted that she believed that the Audit Committee at TWFCG continued to provide the appropriate level of challenge and scrutiny.

The meeting noted the assurance on RSM's independence and noted the fees summary. The meeting also noted RSM's statement that as the audit had taken longer than planned they might need to review their fees as more senior staff members had been involved for longer than planned.

➤ **Letters of Representation**

SM confirmed that the letters of representation (one for the financial statements and one covering the integral regularity audit) would be in the standard format required by the Audit Code of Practice. However, if there was any additional identified in relation to the outstanding items an additional paragraph would be inserted into the standard template for the Financial Statements.

➤ **Regularity self-assessment questionnaire (SAQ)**

The meeting was reminded that the Regularity Audit report from RSM had been considered within the Audit Findings Report and the unqualified regularity opinion was noted. The meeting noted and considered the draft Regularity Audit Self-Assessment questionnaire 2022/23. This detailed report which had been updated to reflect reclassification into the public sector was noted as a useful source of assurance for Governors and a clear reminder

**MINUTE**  
**No**

**ACTION**

of the necessary 'checks and balances' that should be in place. The Director of Governance highlighted that this questionnaire was 99% complete and the 'highlighted figures' would be provided by the Finance Team in advance of the final version being taken to the Governing Body on 13 December 2023.

The Chair thanked the external auditors at RSM for their comprehensive and clear reports.

***Members AGREED to recommend to the Board for approval:***

- a) The external auditor's post-audit management report.***
- b) The Letters of Representation***
- c) The regularity self-assessment questionnaire for TWFCG 2022/23.***

**All Members agreed the recommendations.**

**Refer to  
Corporation**

9. **Annual Report of the Audit Committee 2022/23**

The Director of Governance (TR) presented the Annual Audit Committee Report 2022/23. The meeting was reminded that the purpose of this report was to provide assurance to the Corporation from the Audit Committee on the adequacy and effectiveness of controls and risk mitigation in place. Governors noted that the Annual Audit Committee Report was a mandatory requirement within the Post 16 Joint Audit Code of Practice. TR highlighted that this annual audit committee report would be submitted to the ESFA to accompany the financial statements from each of the colleges.

The meeting discussed the self-assessment against audit KPIs that had been submitted by RSM in the Part II meeting (minuted separately). TR confirmed that the assessment of the auditors would be appended to the Audit Committee Annual Report before it was submitted to the ESFA.

***Members APPROVED the WFCG Audit Committee's annual report 2022/23 which would be taken to the Board for assurance on 13 December 2023 and submitted to the ESFA to accompany the Financial Statements.***

**All Members were agreed.**

**Refer to  
Corporation**

10. **Risk Register**

The Group Principal (GM) presented the Risk Register for 2023/24 which continued to be reviewed and updated by SLT. Audit Committee members noted the highest scoring risks and the update narrative explaining current mitigation and assurance levels.

***Risk 1 Failure to meet budget forecast (risk score remains at 16 'amber'):*** The CEO informed the meeting that The upwards pressure on pay was still a very real concern.

***Risk 2 Uncertainty and risks associated with emerging national curriculum reforms (risk score remains at 12 'amber'):*** This key risk was being well managed and senior staff were fully engaged in advisory groups linked to reform.

***Risk 3 External Safeguarding Risks (risk score remains at 12 'amber'):*** The meeting was assured that the Executive Team continued to work with all relevant agencies in relation to any safeguarding incidents. An update on Safeguarding Reporting – in relation to new requirements around filtering and monitoring - would be brought to the Board in December 2023.

***Risk 4 Poor student outcome data at Langley results in a challenge to the Good Ofsted rating (risk score remains at 16 'amber'):*** The meeting was informed that the Langley data had improved for 2022/23.

The meeting spent some time discussing Risk 1 and noted an update from the Deputy CEO in relation to the year-to-date financial performance against forecast. The meeting considered a RAG rated table which detailed progress against the agreed initiatives to improve the baseline financial health 2023/24. These ten actions – 6 categorised as 'low' risk, 2 'medium' risk and 2 high risk - had been integral to the budget 2023/24 approved by the Corporation on July 2023. RM drew the meeting's attention to the two areas which were currently causing concern:

- a) Transport Expenses which were unlikely to realise the £50,000 saving
- b) Headcount challenge – the proposed saving of £500,000 in-year 2023/24 was currently moving in an adverse rather than a positive direction.

RM shared an updated spreadsheet which he had previously circulated to Resources Committee members on 28 November which looked in detail at the adverse movement in staff costs that had been seen during the first quarter. This demonstrated that if no remedial action was taken, the likely overspend on staff costs at year-end 2023/24 (based on quarter 1 actuals) would be circa £1.732m. The meeting agreed with the assertion that this was clearly not acceptable. RM went on to explain the mitigation that had already been put in place against this staff costs overspend which included the following:

- The ESFA had indicated that additional in-year funding to reflect growth in learner numbers 2023/24 would be available to colleges during the current year. The measure of this additional in-year funding was likely to be circa £854,000 (rather than £683,000 as shown in the report).
- A £150,000 further reduction in the cost of temporary staff (reduced from £765k to £615k – compared with £1.365m in prior year).
- A cancellation of all current vacancy requests had been implemented (All Staff email sent Thursday 23/11/23) with a forecast saving of £100,000 (5 full time staff over 6 months).
- A recruitment freeze had also been put in place with no leavers being replaced until FY2025 which would potentially save £400k.

RM confirmed that this now meant that the financial health grade for 2023/24 would now be Requires Improvement (RI) rather than Good. He also asserted that current anecdotal evidence was this drop in financial health would be the case for a large number of colleges during 2023/24. The CEO also highlighted that the ESFA assessment of Financial Health for 2022/23 had assessed TWFCG as Inadequate for Financial Health rather than the self-assessed grade of Good. This was because the ESFA had been unwilling to exclude the significant impact of merger costs on the final performance.

Governors (AH) highlighted that the in-year support for growth in learner numbers 2023/24 was not yet guaranteed and would not be confirmed until January or February 2024. The meeting discussed the likely level of lagged funding for 2024/25 based on learner number growth 2023/24. RM confirmed that the additional 243 learners would generate an additional £1.5m income for 2024/25.

The meeting expressed concern that there did appear to be an issue with the staff costs run rate and the forecasting used for the 2023/24 budget. RM confirmed that there was an error on this element and it had been understated by circa £300,000 in the budget. Governors also asserted the need for clear visibility for governors on progress with achieving the £500,000 saving on payroll costs 2023/24. The CEO explained the current work that was being undertaken to restructure the Leadership Team in curriculum which would generate a saving of circa £230,000 to the annual pay costs (but the full year impact would not be seen in 2023/24).

RM confirmed that he would complete a budget reforecast in January 2024 which would be considered at the March Resources Committee and Board meetings. The meeting was disappointed to hear of the apparent in-year deterioration but commended the clear visibility and the management action being taken.

**Members NOTED and RECEIVED the updated College Risk Register.**

- **GDPR Risk Register and Action Plan**

The meeting noted a draft GDPR Action Plan and Risk Register which had been produced by the College Data Protection Officer (DPO) (YH). The Director of Governance (TR) who was the line manager for the DPO informed the meeting that a GDPR working group would be established early in 2024 with SLT membership. This would take forward the GDPR Action Plan and ensure senior management buy-in to this important work. TR assured the meeting that Audit Committee would be updated about progress with this work which sat alongside and to some extent over-lapped with cyber-security.

**The GDPR Action Plan and Risk Register were NOTED.**

**MINUTE****No**

11.

**Tender for Internal and External audit provision from 1 August 2024**

The Deputy CEO (RM) reminded the meeting that it had previously been agreed that the college group should go out to tender for external and internal auditors in the current financial year. The meeting noted the draft timetable provided by Tenet which was working to the expectation that recommendations would be taken to the Audit Committee on 6 March 2024, with final approval to be sought at the Corporation meeting two weeks later. RM highlighted that tenders were expected by the close of play 1 December 2023. The meeting was assured that this proposed timetable would allow sufficient time for appointments to be made in advance of planning the external audit process for year-end July 2024 and the internal audit strategy for 2024/25.

***The update on the tender for internal and external audit services for TWFCG from 1 August 2024 was NOTED.***

12.

**Register of Outstanding Audit Recommendations**

The Group Finance Director (LG) presented this report for Governors assurance. It was confirmed that all recommendations from the external audit 2022/23 and the ESFA Funding Audit would be added to this standing report.

***The Outstanding Audit Recommendations Report was NOTED.***

13.

**Fraud, Irregularity and Whistleblowing Report**

The Group Finance Director (LG) presented the report which confirmed that there had been no incidences of fraud, corruption or irregularity perpetrated against the College during the year-to-date 2023/24. The meeting noted that the Whistleblowing report was also a nil return for the period 1 August 2023 to date.

**Members NOTED the Fraud Report (nil return).**

14.

**RSM Briefing: FE Emerging Issues**

The meeting noted a useful briefing paper from RSM which highlighted key emerging issues for the FE Sector. These included: ONS reclassification, Financial Reporting Developments; Future of post-16 qualifications; RAAC; Cyber Security and data; AoC Code of Good Governance; ESFA subcontractor standard; Ofsted; and Higher Education.

**The RSM briefing was NOTED and commended.**

15.

**Dates and Times of Future Meetings**

The date and time of future meetings in 2023/24 were noted as:

- Wednesday 6 March 2024
- Wednesday 26 June 2024

**Members NOTED the 2023/24 meeting schedule and verbal update.**

16.

**Any Urgent Business**

There were urgent items of business raised.

**ACTION**

**The meeting closed at 6.45pm.**

Chair.....

Date.....



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## **PART II**

### **17. Assessment of External Auditors against KPIs**

The Deputy CEO (RM) and Group FD (LG) confirmed that they were largely happy with the RSM responses but might need to change one or two from a grade 1 to grade 2 to reflect the experience of staff involved.

**ACTION: The final assessment for audit KPIs would be finalised after the meeting with no material change to the template approved. (Final version to go to the Board in December 2023 with Annual Audit Committee Report.)**

RM assured the meeting that he would push-back on any suggestion that the external audit fees should be increased for the 2022/23 external audit work.