



BOARD OF GOVERNORS

EXTRAORDINARY AUDIT COMMITTEE

Minutes
Monday 16 December 2024 at 8am
Online via Zoom

		<u>Meeting Attendance</u>
PRESENT:	Jo Croft	(3 out of 3)
	Tony Haines	(3 out of 3)
	Rob Lewis	(3 out of 3)
	Ian Thomson	(2 out of 3)
APOLOGIES	Nathan Garat	(2 out of 3)
IN ATTENDANCE	Lucy Gill	Group Finance Director
	Gillian May	Group Principal & CEO
	Stuart McKay	Audit Partner, External auditors, MHA
	Carina Rolfs	Client Relationship Manager MHA
	Tracy Reeve	Group Director of Governance
	Wendy Stott	Group Management Accountant

PART I

<u>MINUTE</u>		<u>ACTION</u>
<u>No</u>		
1.	<u>Chair's Agenda Item</u> There was no Chair's Agenda item.	
2.	<u>Apologies for Absence</u> Apologies were noted as shown above. The Chair (JC) welcomed the external audit team from external auditors MHA.	
3.	<u>AOB</u> There was no other business notified.	
4.	<u>Declarations of Interest</u> No Member declared a conflict of interest with the agenda.	
5.	<u>Minutes of the Previous Meetings</u> The meeting noted the minutes of the TWFCG Audit Committee meeting of the 27 November 2024, but these would be carried forward to the next timetabled meeting for approval and matters arising. NOTED.	
6.	<u>Matters Arising of the Previous Meetings</u> The Matters arising were carried forward to the next Audit Committee meeting (March 2025). NOTED.	
	<u>ITEMS FOR DECISION/ APPROVAL</u>	
7.	<u>External Audit</u> ➤ <u>Draft Financial Statements</u> The Audit Partner for MHA (SMcK) who had led the external audit 2023/24 for WFCG presented the College's financial statements. Members noted that the narrative and numbers within this document had now all been finalised. Members were advised that the current financial position presented was a deficit of £3.733m excluding FRS102 charges (compared	

to £3.802m in the prior year). The meeting was reminded that the financial decline in FY23 had been due to larger than forecast payroll harmonisation costs post-merger and ongoing IT integration which resulted in short-term duplication of licensing and associated costs. This had resulted in additional I&E expenditure of circa £1 million.

The Audit Committee had previously considered the narrative and governance report to the Financial Statements at their meeting on 27 November 2024; TR confirmed that the suggested changes had been actioned. The meeting discussed the wording in Note 29 'Post balance sheet events' in relation to the land sale at Honey Lane, BCA. It was noted that the slightly vague wording was to maintain the commercial sensitivity around the land sale; the narrative in the notes referred to the quantum of work required on the heritage assets and the ring-fenced funds as this was what the whole planning approval was predicated on and provided the necessary information for readers of the financial statements.

The WFCG Financial Statements 2023-24 were RECEIVED and would be RECOMMENDED to the Board for approval and signing.

**Refer to
Board**

➤ **Going Concern judgement**

The Group Finance Director (LG) presented a paper which asked the Audit Committee to consider the Going Concern position of the College. LG reminded the meeting that the Board would be asked to make a judgement on the College Group being a 'Going Concern' for a twelve-month period from the date of the signing of the accounts (i.e. until 20 December 2026). LG reminded the meeting that at the close of FY24, WFCG held a cash balance of £4.324 million, which was in line with the Group's budget forecasts.

As of the first quarter of FY25, the Group continued to operate within its budget, maintaining stable cash levels. In the first quarter of 2024-25 WFCG had generated £93,000 of additional Adult Skills Funding compared to the same time last year and in addition to the budget. Additionally, £38,500 of additional GLA (Greater London Authority) income had been secured, also ahead of budget. Apprenticeship income was also up by £383,000 compared to the same time last year and compared to the budget. The meeting commended this additional in-year income of approximately £500,000 and Governors were reminded that this was in addition to the growth secured with 16-18 enrolment. The group had enrolled and retained an additional 307 ESFA-funded learners (14-19), which would attract circa £800,000 of in-year growth funding, along with an additional £2m of lagged funding in FY26. The CEO confirmed that the additional £800k in-year growth was not included in forecasts and would be ring fenced to go back into cash reserves. Governors were assured that this increase in revenue alongside a well-controlled cost base, would return the college to a positive operating EBITDA position in the current financial year (FY25) and FY26, alleviating any going concern issues. Payroll for FY25 remained well-controlled and in line with the budget. Planned pay increases had been implemented for the current year and backdated to 1st September 2024. All non-pay costs also continued to be tightly managed.

Audit Committee was reminded that WFCG had a loan from the Department for Education (DfE) totalling £880,000, with a quarterly repayment of £55,000; this loan was due to expire in July 2028. While management acknowledged that cash flows had been pressured at times due to these repayments, all payment obligations had been met as scheduled.

The meeting sought confirmation on the current level of cash that the college was holding in the bank. LG confirmed that this figure was £2.8m on Friday 13 December and an additional income payment was due during the current week. Finance staff were also chasing the local authorities for Term 1 payments for High Needs learners and a payment of £235,000 LSIF funding was expected any day from the contract leads Activate Learning.

Governors (RL) sought additional detail on how the Going Concern judgement was made and what the role of external auditors was in making this judgement. The Audit Partner (SMcK) outlined the process whereby the Corporation of WFCG was required to give an opinion on Going Concern which was then 'judged' by MHA as external auditors. The College had to provide evidence that they were making the correct Going Concern judgement. SMcK outlined the three possible opinions that could be given by the Board of WFCG:

- i. that WFCG was a going concern.
- ii. that the College was a going concern but this was subject to a number of material uncertainties (that would have to be specified in the financial statements).
- iii. that the college was not a going concern and needed to be 'wound up'.

All Members agreed that they felt confident to proceed on the basis of option (i) and the Chair informed the auditors that this matter had already been discussed at the Board meeting on 11 December and would be revisited on 20 December. The meeting agreed that the increased revenue for 2024-25 and 2025-26 alongside the tight cost controls would provide mitigation against the key financial risk on the Risk Register. Governors (IT) highlighted the need to consider the future of automatic pay progression at some point but agreed that the position was sustainable within the current context of ongoing growth.

The meeting AGREED that:

- i. WFCG had experienced a strong start to the 2024-25 operating year and there was a strong justification to approve the assertion that WFCG remained a going concern.***
- ii. The Audit Committee would RECOMMEND that the Board supported the Going Concern judgement for WFCG (at the 20 December 2024 meeting).***

**Refer to
Board**

➤ **Audit Findings Report**

The Client Relationship manager on the MHA Audit Team (CR) presented the Audit Findings Report from MHA which was taken as read. CR thanked the Group Finance Director (LG) and her team for the work done in the first year of the MHA external audit contract. CR highlighted the delays in WFCG providing some of the necessary information for the audit process but reminded the Audit Committee that the College Management Accountant had left in September 2024 and the new incumbent was only appointed at the start of November.

Audit Committee Members were pleased to note that the audit work on the accounts was now substantially complete, and MHA were anticipating issuing unqualified 'true and fair' and 'regularity' audit opinions for the College for the year ended 31 July 2024. This would be finalised following:

- Completion of outstanding audit testing, including receipt and review of any associated audit deliverables either currently outstanding or arising during the completion and review of the testing.
- Receipt of approved accounts, signed by the Board.
- Receipt of signed Letters of Representations from the Board.

CR highlighted the Audit Recommendations which were graded A,B and C; CR informed the meeting that she would talk through the A graded recommendations only which were classed as fundamental. GM highlighted that the management responses to all recommendations were already with MHA as shown in the Audit Findings Report.

The recommendations in relation to Enrolment forms (specifically Apprentices) was noted; this had also been raised by the protracted ESFA funding audit 2022-23 but was now being actioned as per the management response. There was also a grade A recommendation in relation to ILR deficiencies; the college had accepted this and would strengthen controls over data integrity, attendance controls and source documentation. The role of internal audit within 2024-25 to test progress was also discussed. Audit Committee were pleased to note that there had been no issues identified which had an impact on the regularity opinion.

CR went through the weaknesses identified in relation to Key Financial Controls:

- Agreement of EBS to accounting system; EBS needs a more regular update.
- Financial Regulations: needed to be updated to reflect the Treasury Managing Public Money (MPM) guidelines (e.g. requirements to write-off debt), changes to standing data, and more detail on monthly payroll controls.
- Capital expenditure and Fixed Asset Register maintenance.

The meeting discussed the issues with the Fixed Asset Register and noted that the college would implement an annual review of this key document to ensure accurate asset descriptions, appropriate capitalisation and documented disposal approvals. The meeting discussed the issue identified by MHA in relation to the mismatch between the release of deferred capital grants (over 25 years) and depreciation (over 50 years) at Strode's College. LG confirmed that the deferred capital income would be reviewed to ensure alignment with the depreciation rate of the related asset, preventing misstatements and ensuring compliance with FE/HE SORP requirements. GM highlighted the recent work on the Fixed Asset Register which had delayed the finalisation of the accounts but was a necessary action after several years of not being actioned. GM confirmed that all the management actions

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No

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were now agreed, and she would ensure that an accountable manager was allocated to every action with a specific timeframe for completion. Governors sought clarity on why the Fixed Asset Register had been such an issue and was so poorly maintained. GM reminded the meeting that this had been a recurring management action for the last few years at both colleges since pre-merger.

The meeting noted the technical detail of the adjusting and non-adjusting misstatements identified during the audit. SMcK highlighted the large figures in the non-adjusting misstatements in Section 3 (Page 11) of the report. This was in relation to the Strode's depreciation and deferred income where the Strode's building was depreciated over 50 years (at 2%) but the income was released over 25 years (at 4%). SMcK informed Governors that after discussion with management the depreciation seemed fair over 50 years, but the release of income had been overstated. There were several options to deal with this including a one-off in-year correction, but it was probably more sensible to put the correction through over 5 -10 years. Governors highlighted that this had been discussed with the Board on 11 December and the meeting agreed that management should model a ten-year catch-up. SMcK highlighted that if this option was pursued this misstatement would remain in the external audit for the next 10 years but would decrease. The meeting expressed surprise that this error started in 2017 but had never been identified in previous external audits.

The Chair thanked MHA for their rigour and understanding during this first audit for WFCG. The timeline for taking the papers forward to Board on Friday 20 December was discussed. The Group Director of Governance confirmed that the Board had received the draft Financial Statements and the final Audit Findings Report on Friday 13 December. Any final updates to the detail of the Financial Statements – including confirmation of MHAs Going Concern judgement - would be finalised as soon as possible and sent to the Governors in advance of the Board meeting on 20 December.

The Audit Findings Report from MHA was NOTED and RECEIVED. It would be taken to the Board for information.

➤ **Letter of Representation**

SMcK informed the meeting that MHA would forward a Letter of Representation for the Board's consideration. This would be a standard letter but would include an additional clause to highlight the acceptance by the ESFA of the breach in covenant terms (2023/24) relating to the DfE loan provided to the college. This Letter of Representation would be taken to the Board for review and approval, as part of the overall review of the Members' Report and Financial Statements.

NOTED

8. **KPIs for External Auditors**

This report was not presented but would be considered by management in advance of the Board Meeting (20 December).

The KPIs for external auditors would be appended to the annual WFCG Audit Committee Report 2023/24.

9. **Dates and Times of Future Meetings**

The date and time of future meetings in 2024/25 were noted as: Wednesday 5 March and Wednesday 25 June 2025 both starting at 5pm on Zoom.

Members NOTED the 2024/25 meeting schedule and verbal update.

10. **Any Urgent Business**

There were no urgent items of business raised.

The meeting closed at 8.45am.

Chair.....

Date.....