



**MINUTES OF A MEETING OF THE CORPORATION'S  
AUDIT & ASSURANCE COMMITTEE  
WEDNESDAY 13 JANUARY 2021**

**Held by Microsoft Teams due to Covid-19 at 4pm**

<b>Members [5]:</b>	*John Bullen; *Henry Cox; *Rebecca King; *Dan Knight (Chair); *Annetta Minard
<b>In attendance:</b>	*Gavin Teasdale (Interim Finance Director) (FD)); *Vanessa Gifford (Clerk) *Richard Bott and *Carol Davey(Mazars) Jonathan Creed (ICCA) *Graham Ledden (Observing)

ITEM NO.	DETAIL	
1.	<p><b>DECLARATIONS OF INTEREST</b></p> <p>This meeting was carried out using Teams due to Covid-19.</p> <p>There were no declarations of interest <b>NOTED</b>.</p>	
2.	<p><b>APOLOGIES</b></p> <p>There were no apologies for absence <b>NOTED</b>.</p>	
3.	<p><b>MINUTES OF THE MEETING HELD ON 24 NOVEMBER 2020</b></p> <p>The Committee <b>APPROVED</b> these minutes as a true and accurate record, and also <b>APPROVED</b> the open minutes for website publication.</p>	
4.	<p><b>MATTERS ARISING FROM THE MINUTES</b></p> <p>The following matters arising were <b>NOTED</b> from the minutes of 24 November 2020:</p> <ul style="list-style-type: none"> <li>• The Clerk had scheduled a meeting with the new FD</li> <li>• The Clerk had previously updated the Committee that the Principal intended to appoint the DPO externally in due course.</li> <li>• The Internal Annual Audit Report 2019/20 had been amended.</li> <li>• A revised Internal Audit Plan for 2020/21 had been sent to the Clerk who would liaise with the new FD to implement the plan.</li> <li>• The comparison on debtors would be implemented in due course.</li> </ul>	<b>AC</b>
5.	<p><b>ANNUAL REPORT OF THE AUDIT &amp; ASSURANCE COMMITTEE 2019/20</b></p> <p>It was <b>AGREED</b> to <b>RECOMMEND</b> the Annual Report of the Audit &amp; Assurance Committee 2019/20 to the Corporation, subject to an amendment to the number of overall recommendations being changed from 12 to 15.</p>	

6.	<p><b>EXTERNAL AUDIT</b></p> <p>The External Audit Strategy Memorandum Addendum dated September 2020, which included additional requirements by the Office for Students, was <b>NOTED</b>.</p>	
7.	<p><b>EXTERNAL AUDITORS AUDIT COMPLETION REPORT FOR THE YEAR ENDED 31 JULY 2020</b></p> <p>The External Auditors Audit Completion Report for the year ended 31 July 2020 was <b>CONSIDERED</b> and the following points <b>NOTED</b>:</p> <ul style="list-style-type: none"> <li>• The External Auditor advised that the audit had been a complicated process and thanked the Interim Finance Director for his assistance.</li> <li>• The principal risks were noted as: <ul style="list-style-type: none"> <li>➢ Management override of controls;</li> <li>➢ Revenue recognition;</li> <li>➢ Covenant compliance and going concern; and</li> <li>➢ Going concern due to Covid-19</li> </ul> </li> <li>• At the time of issuing the report, there were a number of significant items outstanding related to the audit in respect of the financial statements for the year ended 31 July 2020. These included the following: <ul style="list-style-type: none"> <li>➢ Final accounts including all front-end reporting and drafting matters notified;</li> <li>➢ A detailed analysis of the going concern position of the College and review of going concern paper;</li> <li>➢ Gift aid matters; and</li> <li>➢ Other minor audit items outstanding, including finalisation of audit work on regularity.</li> </ul> <p>Subject to the satisfactory conclusion of the remaining items outstanding above, the auditors anticipated issuing an unqualified opinion, without modification.</p> </li> <li>• The significant risks and key areas of management judgement were: <ul style="list-style-type: none"> <li>➢ <b>Management override of controls:</b> no issues had been noted.</li> <li>➢ <b>Revenue recognition:</b> it was noted that every year the auditors obtained confirmation from the ESFA of the revenue that the College was entitled to. There had been a slight variation for 2019/20, however not material but a full reconciliation was required during 2021. An adjustment to apprenticeship income was proposed.</li> <li>➢ <b>Going Concern due to Covid 19:</b> it was agreed that this was a sector wide issue and a lot of time had been spent reviewing the college cashflow situation. The extension of the NatWest loan to 2031, and the CIBL's loan, had assisted however the Auditor would revisit this issue before sign-off of the accounts to ensure that assumptions and estimations were correct before reaching a conclusion. The Auditor was currently content but required confirmation that the Corporation agreed, especially with the increased focus on going concern.</li> <li>➢ <b>Covenant compliance and Going Concern:</b> the Auditors had obtained bank covenant waiver letters from both NatWest and Barclays regarding their loan facilities. The former had waived the covenants completely for this year, whereas the latter had installed a new, less onerous covenant in 2019/20. Confirmation had been received directly from Barclays outlining that the new covenant had not been breached, notwithstanding the slightly ambiguous wording in the agreement.</li> <li>➢ <b>Depreciation:</b> audit work had indicated that depreciation had been charged in line with the accounting policy.</li> <li>➢ <b>Bad debt provision – non student debt:</b> the provision in place at the end of the year was considered appropriate.</li> <li>➢ <b>Restructuring provisions:</b> following testing, the restructuring provisions appeared reasonable and complied with the</li> </ul> </li> </ul>	

recognition criteria of FRS102.

- **Defined benefit pension scheme assumptions:** From the work performed, the actuaries had advised that the financial and demographic assumptions used by the college were reasonable and could be accepted. However, the long term salary increase percentage had been assumed to be 1.5%, which was considerably lower than what the actuaries might have expected. The Corporation would need to be satisfied that it was a realistic estimate. Other disclosures included in the financial statements met FRS102 requirements.  
The Committee suggested that the asset value at 31 July 2020 may have been understated and the salary assumption was not unreasonable in the current circumstances.
- **Clawbacks:** it was noted that no clawbacks were anticipated for 2019/20.
- The Significant Matters discussed with management were **NOTED** as:
  - **VAT Debtor:** this was a highly complex issue with the Auditors having sought clarification from the College VAT Advisors. The Auditor advised that he was now content with management responses.
  - **Loan Covenants:** the Auditor confirmed that he was content that the Bank covenants had been waived for 2019/20.
  - **KME stock:** a stock count had been undertaken and no issues had arisen.
  - **Going Concern:** At the time of issuing the report, the Auditors were awaiting management's full assessment of the going concern status of the College before confirmation.
  - **Gift Aid:** it was noted that the Gift Aid to the College from KME Ltd for 2019/20 had been made out of time and after a period of losses making it an illegal dividend as there were insufficient reserves. This would have to be adjusted within the accounts for KMC and KME Ltd to show a corrected position. It was confirmed that there would be no overall impact on the group. It was noted that the College had to ensure that the payments were made in a timely manner going forward.
  - **ESFA funding reconciliation:** this item had been previously discussed and actions agreed.
  - **Access and Participation Plan (APP):** it was noted that this was a new requirement by the Office for Students (OfS) and further regulation was expected over time. The Auditor had been required to perform testing on APP disclosures made in the accounts, and it was understood that these calculations had been produced as a true and fair representation of time spent on the advancement of each APP category. An entry in the letter of representation as further support for this would be added.
  - **Student bursary money:** an adjustment in the summary of misstatements had been recommended to reflect correct utilisation of travel costs.
  - **Termination payment:** this issue had been fully investigated and the Auditor had agreed the position and an appropriate representation included in the Letter of Representation.
  - **CJRS:** Claims have been made this year using the government's Coronavirus Job Retention (furlough) Scheme, for those employees who work in a more commercial role. It was noted that this was complex for the College with the KME staff and the Auditor advised that the sample that was tested appeared to show a modest under claim. A control point had been raised on this point.
- The Auditor advised that this had been a challenging year due to change in personnel and remote working due to the pandemic.
- The Pension Benchmarking data was noted, especially the increased movements in discount rates.

	<ul style="list-style-type: none"> <li>The Auditor did not identify any instances of irregularity through the course of the engagement that required reporting.</li> <li>It was noted that 3 new 'Medium' control points had been recommended with all previous points cleared: <ul style="list-style-type: none"> <li>➢ Reconciliation of ESFA Income</li> <li>➢ Bursary Money</li> <li>➢ Gift Aid</li> </ul> </li> <li>The Summary of Misstatements was considered, noting that the student bursary funding had been adjusted, and the others still had to be processed. It was noted that the £8,099 for holiday pay should be a deficit.</li> <li>It was questioned whether the £17K adjustment for student travel had impacted the bank covenant and it was noted that there was no change, nor with the financial health rating.</li> <li>It was noted that estimates had been used for the APP with other colleges implementing the same approach.</li> <li>The specific points made in the Letter of Representation were noted and it was emphasised that the Corporation should ensure that it understood the findings to give scrutiny to the college operations.</li> <li>It was noted that the Letter of Regularity Representation was a standard document, with the addition of two new points from the OfS.</li> </ul> <p>After full consideration the Committee <b>AGREED</b> to <b>RECOMMEND</b> the Audit Completion Report for the year ended 31 July 2020 to the Corporation, subject to the outstanding points at the beginning of the report.</p>	
8.	<p><b>KMC FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020</b></p> <p>The KMC Financial Statements for the year ended 31 July 2020 were <b>CONSIDERED</b> and the following points <b>NOTED</b>:</p> <ul style="list-style-type: none"> <li>The Interim Finance Director confirmed that the Bank Covenants had been complied with.</li> <li>It was noted that the majority of the shortfall was due to pension adjustments.</li> <li>It was questioned whether a reconciliation to the end of July Management Accounts had been carried out and the Interim Finance Director advised that no formal reconciliation had been completed but would be undertaken before the end of the audit process.</li> <li>Members had identified some typographical errors within the accounts and these would be passed to the Interim Finance Director the following day.</li> <li>It was considered that the ongoing impact and risks of Covid 19 should be included, as well as making the scale of the deficit by actuarial loss more explicit</li> <li>The Committee suggested that the receipt of clear accounts with no caveats would have been favourable, however the changes in personnel and new audit guidelines were understood.</li> </ul> <p>After full consideration the Committee <b>RECOMMENDED</b> the KMC Financial Statements for the year ended 31 July 2020 to the Corporation, subject to consideration of a detailed Going Concern assessment by the Corporation.</p>	<p><b>GT</b></p> <p><b>GL/GT</b></p> <p><b>GT</b></p>
4.50pm	Rebecca King left the meeting and it remained quorate.	
9.	<p><b>KME LTD FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020</b></p> <p>The KME Ltd Financial Statements for the year ended 31 July 2020 were <b>CONSIDERED</b> and the following points <b>NOTED</b>:</p> <ul style="list-style-type: none"> <li>It was noted that there was a £63K deficit for KME Ltd which was due to the</li> </ul>	

	<p>impact of Covid 19.</p> <ul style="list-style-type: none"> <li>• The adjustments relating to the payment of the Gift Aid for 2018/19 would be completed as previously discussed.</li> <li>• Small presentation errors would be rectified.</li> <li>• The Auditor suggested that as part of the Corporations discussions on Going Concern the Corporation should provide a KMC statement advising it would continue to support KME Ltd, to assure the KME Directors that the company was a Going Concern.</li> </ul> <p>After full consideration the Committee <b>RECOMMENDED</b> the KME Ltd Financial Statements for the year ended 31 July 2020 to the Corporation.</p>	<b>VG</b>
<b>10.</b>	<p><b>RISK MANAGEMENT 2020/21</b></p> <p>The following matters were raised relating to Risk Management:</p> <ul style="list-style-type: none"> <li>• The impact of Covid 19 on educational outcomes.</li> <li>• The ongoing impact of Covid 19 with finances requiring careful management.</li> <li>• It was acknowledged that there were significant actions for the incoming Finance Director with concerns expressed, and additional support was suggested. The Clerk agreed to pass the comments to the Principal, with members noting that the role had been modified prior to appointment with the two roles of Finance and Commercial being split, and the Principal now undertaking line management for commercial activity.</li> <li>• It was suggested that there could risks associated with the FE Commissioners recent Diagnostic Assessment. The Clerk advised that the report was still awaited.</li> </ul>	
<b>11.</b>	<p><b>ANY OTHER BUSINESS</b></p> <p>There were no further matters of business raised.</p> <p>The Interim Finance Director was thanked for his work in challenging times, and he replied that it had been a pleasure working with the College, which he considered to be well run and had a good future.</p>	
<b>12.</b>	<p><b>2020/21 COMMITTEE DATES</b></p> <p>The following dates were <b>NOTED</b>:</p> <ul style="list-style-type: none"> <li>• 30 March 2021</li> <li>• 15 June 20210</li> </ul>	
<b>13.</b>	<p><b>CONFIDENTIAL SESSION</b></p> <p>The Interim Finance Director left the meeting and this item was minuted confidentially.</p>	
	The meeting closed at 5.15pm with no further business	

Chair

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