

United Colleges Group Corporation
Joint Meeting of the Audit Committee and the Finance and Resources Committee
Wednesday 30 November 2022, 6 pm, by Zoom

Present:

AUDIT COMMITTEE - Derrick Betts (Chair), Grainne Brankin, Amish Nathwani.

FINANCE AND RESOURCES COMMITTEE - Tony Johnston, Franklin Asante (Chair), Stephen Davis, Alex Fyfe, Ross Mackenzie.

In attendance

Amanda Thorneycroft, Claire Collins, Shachi Blakemore (Buzzacotts LP)*, Alex McDonald (BDO), Richard Weighall* (BDO), Liesyan Cox (Scrutton Bland), Paul Bradley* and Zoë Lawrence,

*For relevant agenda items only

A	JOINT MEETING
1	<p>Apologies for absence Apologies had been received from Lauran Griffin and Alastair Procter. Both committees were quorate throughout.</p>
2	<p>Declarations of interest in agenda items None were received.</p>
3	<p>External Auditor’s Report: Financial Statements Audit and Regularity Findings Report 2021/22 <i>(Papers circulated in advance)</i> SB brought to the Committees’ attention the high-level findings from their external audit and the few items that were awaited to be able to sign off the accounts. One of these was the report of the GLA audit, though the final reconciliation from the ESFA had been received. She also commented that there might also be some post-balance sheet items following the ONS’s decision to reclassify colleges as public sector the day prior to the meeting. SB was able to provide a clear statutory and regularity audit opinion. The increase in net assets as a result of discount rates, and the end year surplus position were noted.</p> <p>SB sought that the Committees consider UCG’s position as a going concern for the next 12 months from signing the accounts. She recognised the difficult economic pressures colleges were facing and the significant capital project at Wembley. The ONS reclassification of colleges into the public sector had introduced restrictions which came into immediate effect on borrowing and at this point it was not clear what the impact would be. A meeting was to take place between auditors across the sector and the ESFA later that week. There was potential that the reclassification could help mitigate some risks.</p> <p>SB said that the external auditors were satisfied with the internal audit reports, income recognition and that there were no material level adjustments to the accounts. Adjustments amounted to £400k which was below the materiality threshold of £600k. Four recommendations had been made in their report including tuition fees, fixed asset register and the accounts system which needed modernisation. SB acknowledged the support of AT and the finance team and thanked them for their assistance with the audit.</p>

	<p>DB asked about the awaited GLA funding audit report and should this be further delayed it might risk the late submission of UCG’s financial statements. There had been over-delivery in this area therefore no claw back was expected. SB said that she appreciated the college’s position but felt that it would be hasty to proceed without having seen a draft of the report or the findings as a minimum. The GLA were aware of the deadlines on the accounts, and that the report would be needed. AT said that she had followed this up with the GLA that day. She considered the risk of any claw back or negative findings to be a very low risk, particularly given the consistent over-delivery in recent years and that as the audit was done in May any issues would be known by this time. If there was to be any negative provision, she considered it not to be material. She considered the risk of not submitted the accounts on time to be more significant.</p> <p>TJ noted the accounting treatment of the laptops in the financial statements and pressed for as many of the laptops as possible to be in use by students rather than in storage. AT said that laptops were issued to 16–18-year-old students following the census in early November, and that the current intention was to use the laptops within the colleges rather than to sell them.</p> <p>AF asked if there would be reference to the new ONS ruling in the financial statements under the post balance sheet events disclosures. SB confirmed this once the position was clearer.</p> <p>Members were content to recommend the External Auditors report to the Corporation for approval pending outstanding matters on the GLA audit and ONS reclassification.</p> <p>Letters of Representation <i>(Papers circulated in advance)</i> Members reviewed the Letters of Representation which were standard issue. The Committees were content to recommend the letters to the Corporation for signing.</p> <p>Regularity Self-Assessment <i>(Papers circulated in advance)</i> Members reviewed the above as documents on which the auditors rely in the delivery of their work. Members approved the documents for signing.</p>
4	<p>UCG and CWC Enterprises Financial Statements for year ended 31 July 2022 <i>(Papers circulated in advance)</i></p> <p>AT presented the financial statements for the College and subsidiary. A standard template for these was used. She also brought to the Committees’ attention the letter of support from UCG to CWC enterprises in recognition of carrying a loss from the prior year.</p> <p>TJ thanked Amanda and the Finance Team for their work in being able to end the year in surplus under significant cost pressures. He noted the increase in CWC Enterprises revenue and asked if this was a continuing trend or an anomaly. AT explained that the revenue included the Cockpit Theatre and lettings at Paddington. Lettings income had been strong post pandemic and the Summer School had also contributed to this. TJ asked if any increase in costs were being reflected in the prices. AT confirmed this for lettings but said that a range of ticket prices were offered at the Cockpit depending on the type and notoriety of the performance. The increases to the London Living Wage were also impacting staff costs at the Cockpit.</p> <p>RM suggested that it may be useful to make reference to the economic environment and sustainability in the commentary in the financial statements/ governors’ report, particularly if other colleges did this. GB agreed that sustainability should be an increasing element of our reporting but this needed to be reflective of reporting in the sector. SD commented that</p>

	sustainability featured in the College Plan but was content to reference it going forward in the financial statements. The Committees were content to recommend these Financial Statements to the Corporation for approval.
5	<p>Section of meeting without Executive Members present</p> <p>In line with best practice the Executive members left the meeting for this item to allow governors the opportunity to have a direct discussion with the auditors. TJ asked SB if there was anything hidden from governors as part of the audit. SB confirmed that there was considerable transparency but commented that the resources constraints in the finance department were worthy of further discussion. This had resulted in the audit taking longer than expected and a more staggered approach.</p> <p>GB asked about the materiality threshold and that this seemed high compared with other industries she had experience of. SB explained that if an adjustment irrespective of size moved the college into another financial health category, then there would be further investigation and it would be brought to the attention of the Committee/Corporation.</p> <p>DB asked how we benchmarked against other colleges. SB said that there had been positive progress regarding the IA opinion, regularity assurance and student data this year. The resourcing of the finance team was an issue compared to other colleges, particularly with the financial demands of the capital project, and running of two separate financial systems. AF asked if the finance resourcing was just at a senior level or across the board. SB thought that this was more general.</p> <p>FA provided an update on the position of Visssionaires. The payment had been included as a recurring licence fee in the P&L account.</p> <p>SB left the meeting at the end of section A.</p>

B	FINANCE AND RESOURCES COMMITTEE
1	<p>Declarations of interest in agenda items None were received.</p>
2	<p>(i) Approve minutes of the Finance and Resources Committee meeting on 5 October 2022 <i>(Papers circulated in advance)</i> The minutes were approved and signed as an accurate record.</p> <p>(ii) Actions and matters arising The only action from the previous meeting that was outstanding concerned a summary of the MIDAS data. SD set out how students at UCG made better than average progress than most English Colleges though the pre-qualification level was lower with many students with no GCSEs at level 4 or above. The deprivation score was also a factor for 16-18-year-old learners. This made UCG's task harder than for other colleges. AF suggested that the value-added data be included alongside achievement in the financial statements as it was equally relevant. SD agreed to do this for the following year.</p>
3	<p>Management Accounts (P3) October <i>(Papers circulated in advance)</i></p>

	<p>AT reported that the management accounts presented a positive start to the year particularly on GLA procured and apprenticeship income. Tuition fees were under budget, but this may be addressed through enrolments next term. It was noted that HE income was low, but income from the Borough and Cockpit were reasonable at this point in the year. SD explained that the 'Free Courses for Jobs' funding was being taken forward through a new marketing strategy. This required a higher level of teaching for which recruitment and workforce planning was being implemented.</p> <p>On payroll AT informed the Committees of the settlement reached with UCU for teachers' pay, and that this would be negotiated for support staff. The reforecast was yet to be completed, but this would need to reflect the pay award, increase in utility costs and any cost savings that have been achieved. AF congratulated those involved in the pay negotiations and that strike action had been averted.</p> <p>AN noted the variation in agency and permanent staff costs. AT acknowledged this and said that some longer-term agency support staff were being made permanent as the pension cost reductions had now made this more affordable. Agency costs to recruit teachers into hard to fill posts had driven agency costs up in recent years. SD explained the difficulty in recruiting despite multiple campaigns, that there were seldom quality applicants. He said he would be bringing forward the budget reforecast process to better understand resource capacity for workforce planning.</p> <p>RM suggested that it would be useful to reflect the significant increase in utility costs in the budget and management accounts now as it was such a large swing. TJ asked whether a decision had been taken on energy savings over the Christmas period through closure of some college campuses. The final decision was expected the following day, but the temperature had already been reduced in campuses and plans were in place to consolidate evening classes for next term. UCG were unable to support Crisis at Christmas this year due to the buildings not fulfilling their requirements for covid.</p> <p>Members noted the management accounts.</p>
4	<p>ONS Reclassification of Colleges <i>(ESFA Letter circulated in advance)</i></p> <p>SD highlighted the potential implications of the recent announcement from the ONS to reclassify colleges as public sector organisations. The most significant of these though yet unconfirmed was the impact on borrowing including the RCF which was an existing facility. The hope for exclusion from paying VAT had not yet transpired, but the levelling of the payment profile to avoid the huge cash dip in the Spring, the possibility that the bridging finance for the Wembley Project may be available with lower financing costs, and not requiring security on loans were potentially positive outcomes. Based on the current cash flows it was expected that UCG would need to draw on the RCF in the coming months. Clarification was being sought from the ESFA on what permissions we would need to enable this. Members discussed if the £20m capital receipt at the end of the project would only be able to be used for capital transactions. AF expressed concern that delays may be incurred due to requirements to seek ESFA permissions and that these need to be factored into timescales. SD mentioned that a meeting with the DfE had taken place that week which had strengthened confidence in receipt of the £12.5m DfE grant. Final confirmation was expected in the coming days.</p> <p>Members acknowledged that the announcement on the ONS reclassification was new and there had not been much time to fully understand the implications and further guidance was</p>

	being prepared. A further discussion would take place at the Corporation meeting on 14 December.
5	<p>Cash Flow Update <i>(Papers circulated in advance)</i></p> <p>AT provided a summary of her paper which set out the revised cash flows taking in account the change in timings on the Wembley Project when phase 1 & II payments would be received, utility cost and pay award increases. It identified the cash flow strains and the need to extend and increase the RCF until the first of the sale proceeds were received. The cashflows also provided stress testing should the first payment be delayed and arrangements for this. The cash flows would need to be reconsidered in light of the ONS announcement, timing of the DfE and GLA grant payments which may be possible to be front loaded. Members welcomed this paper.</p> <p>F&R Committee members left the meeting at the end of section B.</p>

C AUDIT COMMITTEE ONLY	
1	<p>Declarations of interest in agenda Items</p> <p>None were received.</p>
2	<p>(i) Approve Audit Committee minutes of 19 October 2022</p> <p>The minutes were approved as an accurate record.</p>
3	<p>Internal Audit Reports <i>(Papers circulated in advance)</i></p> <p>I. Enrolment</p> <p>This audit received substantial assurance. RW commented that the issues identified through previous audits had been addressed and enrolment had worked well. Only two minor recommendations had been made.</p> <p>II. Tuition Fees</p> <p>AMc presented this report which showed limited assurance. The main issues concerned the inconsistent practices across the two sites in how and when income was recognised, processes used and how it was recorded. AT said that the recommendations in the report had been accepted and the issues already known. It was intended that the two pro-solution systems currently in place would be brought together by the end of this academic year, and a new finance package was being sourced which would address some of the recommendations made. The impact of the processes for recording tuition fee income on the management accounts were discussed. The level was not considered to be material though the error would be ongoing. AN asked why there was not dedicated resource at CWC to chase payments. AT said that the resource was not available and due to poor student data was quite complicated. If the student data was improved, it may be possible to outsource this to a debt collection agency. AN asked how much was written off. AT agreed to provide this figure outside of the meeting.</p> <p>III. Cyber Security</p> <p>This cyber security audit was from the previous academic year so was not included in this year's annual internal audit report. The assurance was limited, but the value of the report was questioned as it had taken place such a long time ago and work had progressed in this area. PB said that the report was fair at that point in time and work was continuing to address the recommendations made, though identifying resources</p>

	<p>to deploy had been difficult. AN challenged why there had been such a delay in the Audit Committee receiving this report and requested that as a rule despite disagreements between the auditors and executive on the recommendations that this is not repeated, and all reports are received by the Committee within the year they are completed. The other members of the Committee supported this view. Levels and benchmarks for cyber security were discussed and which of these would apply to the college. The Committee considered that this was an important issue that needed further consideration within the appropriate committee. A further cyber security audit was currently underway. It was agreed that both reports and an action plan would be an item at the next Property & Infrastructure Committee.</p> <p>IV. Risk Management</p> <p>LC confirmed that this audit had received significant assurance with many examples of good practice particularly the Risk Control Group. A few minor recommendations had been made to correct errors in the template formula which had been implemented.</p>
4	<p>Internal Audit Annual Report <i>(Report circulated in advance)</i></p> <p>RW commented that overall there was generally good controls in place though there were some specific areas where improvements could be made which would reduce risk overall.</p>
5	<p>Internal Audit Progress Report <i>(Papers circulated in advance)</i></p> <p>LC said that this set out the progress to date on the current audits this year which were on schedule.</p>
6	<p>Audit Committee Annual Report <i>(Draft circulated in advance)</i></p> <p>The drafting omissions in the report related to the IA reports being discussed at this meeting. The report would now be completed and circulated to Audit Members for agreement prior to being approved by the Corporation on 14 December and submitted to the ESFA by the end of December.</p>
7	<p>This was to be BDO's last UCG Audit Committee as the exiting IA partners. The Committee thanked RW and AMc for their attendance and contribution to UCG's internal audit over many years.</p> <p>The Audit Committee meeting closed at 8.03 pm.</p>

SIGNED:

Date:

Franklin Asante, Chair F&GP

SIGNED:

Date:

Derrick Betts, Chair Audit

ACTIONS

Ref	Action	Owner	Status
C3ii	To provide figures on the level of tuition fees written off	AT	
C3iii	Cyber Security IA reports and action plan to be an item at the next P&I Committee	ZL/ PB	Complete