



COLEG Sir Benfro
Pembrokeshire COLLEGE

Audit Committee

Annual Report
1st August 2023 -
31 July 2024



1.0 Introduction

- 1.1 In compliance with the Welsh Government Further Education Audit Code of Practice, the following Report for the year ended 31/07/24 has been prepared by the Pembrokeshire College Audit Committee. The Report has been prepared for the Corporation Board and will be considered prior to the approval of the 2023/24 statutory accounts.
- 1.2 The Report uses the guidance contained in Annex C of the revised Further Education Audit Code of Practice (issued March 2015).

2.0 Membership

2.1 The following Committee Members served during the 2023/24 academic year:

- Dylan Harries – Chair of Audit Committee
- (Appointed to the Board and Audit Committee in December 2020, re-appointed as Chair in December 2022)
- Andy Jones - (Appointed to the Board and Audit Committee in July 2017, previously a co-opted member of the Committee. Completed his term December 2023)
- Marc Blockwell - (Appointed to the Board and Audit Committee in January 2020)
- Jo Hendy (Co-optee, appointed December 2023)

2.2 The composition of the Audit Committee is in accordance with the guidelines defined in the Code of Practice (paragraphs 3.4 and 3.5).

2.3 Catherine Freeman is the Governance Officer and Clerk to the Committee and Corporation Board.

3.0 Meetings

3.1 The Committee met on 4 occasions during the year:

- 10th October 2023
- 16th November 2023 – Presentation of the Accounts (followed by the annual meeting with External and Internal audit representatives without Management Team present)
- 25th January 2024
- 11th June 2024

3.2 Overall attendance for Committee Members was 92% (previous year 94.

3.3 The following members of the Senior Management Team attended meetings:

- Barry Walters - Principal
- David Evans - Assistant Principal Commercial and Client Services
- Jackie Mathias - Assistant Principal Vocational Studies
- Caroline James - Director of Resources
- Berni Tyler – Director of Work Based Learning
- Emma James – Health, Safety, Sustainability & Risk Manager
- Steve Jones – Head of Estates and Facilities
- Sion Morgan – Accounts & Finance Manager

In addition, the following bodies were represented when required to present their reports:

- PricewaterhouseCoopers (PwC) - External Auditors
- Wylie Bisset - Internal Auditors

4.0 Terms of Reference

- 4.1 The Committee adopted the Terms of Reference as set out in the revised Audit Code of Practice. The Committee annually reviews its Terms of Reference and minor amendments were made to clarify that co-opted members would form part of the Committee and have full voting rights.

5.0 Internal and External Audit Providers

- 5.1 The Board appointed Azets as the External Audit Providers from August 2023 with the first audit being undertaken for the Year End 31st July 2024. Wylie Bissett was appointed as the Internal Service Providers from 1st August 2023 and took up their position from that date. Both appointments were for an initial term of 3 years with the option to extend for a further two.
- 5.2 College Management have been content with the service provided by both Wylie Bissett and Azets. The Key Performance Indicators (as set out in the Audit Code of Practice 2015) since the commencement of the contracts have been satisfactory and approved annually by the Audit Committee.

6.0 Internal Audit

- 6.1 The Annual Report by Wylie Bisset summarises the outcomes of the reviews carried out on Pembrokeshire College's framework of governance, risk management and control. This section includes extracts from the Internal Audit Annual Report for the year ending 31st July 2024. The full Internal Audit Annual Report is included in the submission with this report.
- 6.2 Executive Summary Section 2 – 'All areas included in the Operational Plan for 2023/24 have been completed. In forming our opinion, we have carried out the following work:
- A review and appraisal of financial and other controls operated by the College;
 - A review of the established policies and procedures adopted by the College;
 - An assessment of whether or not the internal controls are reliable as a basis for producing the financial accounts;
 - A review of accounting and other information provided to management for decision making;
 - Compliance and substantive audit testing where appropriate;
 - A review of the College's procedures in place to promote and secure value for money.'
- 6.3 Executive Summary – Section 2 - Basis of Opinion – 'As the Head of Internal Audit at Pembrokeshire College we are required to provide the Audit Committee with an opinion on the adequacy and effectiveness of the Organisation's risk management, control and governance processes. In giving our opinion, it should be noted that assurance can never be absolute. The most that we can provide to the Audit Committee is reasonable assurance that there are no major weaknesses in the Organisation's risk management, control and governance processes. In assessing the level of assurance given, we have considered:

6.0 Internal Audit continued

- All audits undertaken during the year ended 31 July 2024;
- Any follow-up action taken in respect of audits from previous periods;
- Any significant recommendations not accepted by management and the consequent risks;
- The effects of any significant changes in the College's objectives or systems;
- Any limitations which may have been placed on the scope of internal audit;
- The extent to which resource constraints may impinge on the Head of Internal Audit's ability to meet the full audit needs of the College;
- What proportion of the College's audit need has been covered to date; and
- The outcomes of our quality assurance processes.'

6.4 Outlined below are the areas reviewed and assurance assessment. Wylie Bisset used a different grading structure from the previous internal auditors. The grading structure is made up of four levels of assurance – Strong, Substantial, Weak, No. A definition of the levels of assurance is outlined in the Internal Audit Annual Report.

• Cyber Resilience	Substantial
• Overall Financial Controls	Strong
• Consortium Management	Strong
• Faculty Review – Engineering, Computing & Higher Education	Substantial
• Additional Learning Support	Substantial
• Corporate Governance	Strong
• Faculty of Built Environment including WBL Delivery (Engineering & BE)	Substantial
• Quality Assurance	Strong
• Follow up Review	Substantial

6.5 Four out of the nine Internal Audits were graded with strong levels of assurance and five substantial levels of assurance. There were no weak levels of assurance or no assurances given. Fifty five planned audit days were completed as agreed.

6.0 Internal Audit continued

- 6.6 **Internal Audit's Annual Opinion** - 'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In our opinion, the College did have adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives at the time of our audit work. In our opinion, the College has proper arrangements to promote and secure value for money. Our fieldwork was carried out between December 2023 and March 2024, and we have not undertaken any further internal audit assignments at the time of this report'.

7.0 External Audit

The following was presented as a report to the Audit Committee on 19th November 2024. All extracts included below refer to this presentation.

7.1 Preparation of Financial Statements

We are pleased to note that all information was prepared on a timely basis and in accordance with the agreed year end timetable. The schedules, analyses, audit trail and other supporting information provided has continued to be of a high standard. We will issue an unqualified audit opinion.

7.2 Financial Performance

The College is reporting a surplus before the actuarial gain and asset ceiling adjustment on the pension scheme of £1,853k compared to £1,292k in the prior year. Overall income has increased by £3,703k while total expenditure has increased by £3,183k which demonstrates the favourable increase in surplus for the year.

7.0 External Audit continued

	2024	2023	2022
	£'000	£'000	£'000
Total Income	47,521	43,818	43,678
Staff costs	(18,305)	(18,226)	(17,734)
Other operating costs	(25,494)	(22,494)	(24,121)
Depreciation	(1,850)	(1,580)	(1,337)
Interest and finance costs	-	(166)	(322)
Total expenditure	(45,649)	(42,466)	(43,514)
Adjusted EBITDA before one off costs and non-cash items	1,791	2,343	2,739
Net interest receivable	664	61	(295)
Staff restructuring costs	(41)	(14)	(44)
Non-cash items:			
Depreciation	(1,850)	(1,580)	(1,337)
Release of capital grants	1,181	1,088	880
FRS 102 pension & early retirement credit / (charge)	127	(546)	(1,779)
Surplus before other losses	1,872	1,352	164
Loss on disposal of fixed assets	(19)	(60)	(108)
Surplus for the year retained within general reserves	1,853	1,292	56
Actuarial gain/loss	1,145	9,852	17,421
Pension asset ceiling adjustment	(5,184)	-	-
Total comprehensive (loss) / income for the year	(2,186)	11,144	17,477

These reported figures include significant 'non-cash' items - most notably the accounting treatment for the College's share of the local government pension scheme ("LGPS"). Adjusting for these items (as shown in the boxed area of the table) shows a more representative picture of the underlying cash generated by the College. The adjusted EBITDA ('cash surplus') is £1.8m which is £552k (23.6%) below the 2023 result but still demonstrated significant earnings in the financial year.



7.0 External Audit continued

The total reported “bottom line” performance of the College is a ‘comprehensive loss’ of (£2.2m) after accounting for an actuarial gain during the year and the pension asset ceiling adjustment which has significantly reduced the comprehensive income. Due to the College not meeting the requirements to recognise a pension asset this adjustment has been processed to ensure compliance with accounting standards. The movement in the underlying comprehensive income during the year demonstrates the variability in the pension fund valuation and the impact of the accounting treatment.

7.3 Going concern and Liquidity

Under ISA 570 (UK), we are responsible to obtain sufficient audit evidence that the College’ basis of preparation of the financial statements as a going concern remains appropriate.

The current level of cash, absence of external debt and forecast EBITDA for FY25 mean that there are no going concern issues to consider in the next 12 months.

7.4 Pensions

The College participates in two pension schemes:

- Teachers Pension Scheme (TPS)
- Local Government Pension Scheme (LGPS)

7.0 External Audit continued

Teachers' Pension Scheme (TPS)

The TPS is a UK-wide scheme which is a statutory unfunded, defined benefit occupational scheme. As a result the scheme is treated as a defined contribution scheme for FRS 102 purposes. Accordingly there is no provision made under FRS 102.

LGPS

The deficit in the LGPS scheme as at 31 July 2024 stands at a surplus of £5.2m compared with the surplus of £3.6m at the prior year end – see movements below:

	2024	2023	2022
	£'000	£'000	£'000
Deficit at 1 August	3,644	(5,441)	(20,704)
Movement in year:			
Current service cost	(1,331)	(1,992)	(3,041)
Net finance income/(cost)	225	(166)	(322)
Employer contributions	1,501	1,391	1,205
Actuarial gain	1,145	9,852	17,421
Net defined asset/(liability) at 31 July	5,184	3,644	(5,441)
Effect of Asset Ceiling	(5,184)	-	-
Recognised pension asset/(liability)	-	3,644	(5,441)

	Optimistic	Median	Prudent	PC FY24
Discount Rate	5.3%	5.2%	5.1%	4.9%
RPI inflation	3.0%	3.2%	3.5%	3.2%
CPI inflation	2.4%	2.7%	3.0%	2.6%

7.0 External Audit continued

The discount rate that has been utilised by Mercer falls below the prudent level at 30 June 2024 but this is largely due to fluctuations as the actuary report is at 31 July 2024. The actuary have utilised the rate on corporate bonds as at year end which is appropriate.

7.5 Conclusion

This report aims to assist the College and senior management over and above our legal responsibility. Please do not show it to third parties to whom we cannot be responsible.

8.0 Work of the Committee

8.1 The Committee considered the following during the period ended 31st July 2024:

- Review of Terms of Reference
- Accounting Policies 2022/23
- External Audit Plan 2022/23
- Annual Review of CRM Strategy, Plan & Risk Appetite 2023/24
- Review of Compliance with Mandatory Requirements of Audit Code of Practice
- Audit Related Letters Review 2022/23
- Documents Under Seal Register 2022/23
- Gifts and Hospitality Register 2022/23
- Review of Confidential Items 2022/23
- Losses/Bad Debts 2022/23
- Declarations of Interest for Board Members and Senior Management
- Procurement Savings Report 2022/23
- Whistleblowing Update
- Presentation of Accounts

8.0 Work of the Committee continued

- Comparison of Accounts for YE 31/07/23, with Forecast at June 2023
- External Audit Statement of Reliance on Internal Audit 2022/23
- Representation Letter
- Report on the 2023 Audit of FE Funding Data Return
- Review of Systems of Internal Control
- Audit of Funds for the Purpose of YE 31/07/23
- Report on the 2023 Audit: Management Letter
- Certificate of Losses for Year ended July 2023
- Related Party Transactions for YE July 2023
- Emoluments of Principal and Higher Paid Staff
- Audit Committee's Annual Report 2022/23
- Draft Financial Accounts for YE 31/07/23
- Auditor's Performance Indicators 2022/23
- Private Discussion with Internal and External Auditors without Managers
- Procurement Policy
- Internal Audit Reports
- Audit Needs Assessment and Operational Plan 2024/25
- Internal Audit Annual Report 2023/24
- GDPR and Data Protection Log
- Whistleblowing Policy
- *New and Emerging Risks
- *Other Audits
- *Financial Regulations
- *Internal Audit Database of Outstanding Actions
- *Audit Committee Database of Outstanding Actions
- *Single Tenders
- *Risk Referrals
- *Audit Related Letters
- *Reportable Events
- *Fraud Register

Note: Asterisked headings are standing items on every Audit Committee agenda



8.0 Work of the Committee continued

- 8.2 This was the first year of the new internal auditors Wylie Bisset and as outlined in section 7, it involved a new grading system for assurance. The approach taken by Wylie Bisset differed from that of the previous auditors and the Committee adapted to the new approach. Members found the benchmarking information useful and provided additional assurance on the number of recommendations being received.
- 8.3 The Corporate Governance internal audit received a grade of strong assurance, however there was a low level recommendation around Board Member attendance which the Audit Committee referred to the Board to ensure they were aware of it and take action as appropriate.
- 8.4 No audit related letters were received during 2023/24. Two policies were reviewed by the Committee that were within their remit, the Procurement Policy and the Whistleblowing Policy.
- 8.5 The Committee continued to monitor New and Emerging Risks at each meeting. Of particular note was the shortfall in the Welsh Government budget and financial pressures that would be faced by the College. As well as potential for additional costs for College buses and considered the mitigating actions that were being undertaken by the Management Team.
- 8.6 Following the retirement of the Assistant Principal for Commercial and Client Services, a restructure of the Senior Management Team was agreed. Two Audit Committee Members were involved in the selection process for the new Assistant Principal Finance and Resources and their professional experience was an asset to the process.

9.0 Audit Committee Opinion of Internal Audit Controls

- 9.1 The Audit Committee is required to give an opinion on the effectiveness of audit arrangements for the institution and to give an opinion on the extent to which the Corporation Board can rely on the risk management, control and governance arrangements of the Institution.
- 9.2 The Audit Committee is aware of its role and required outcomes and its work is directed to achieving these goals. Opinions formed by the Committee are based on opinions expressed by the Internal Auditors, External Auditors, PAGS, Estyn and other agencies, as well as the College Management Team. Generally, the Internal Auditors perform the lead role in the process as their work plan is integrated with that of the Committee.
- 9.3 Based on the work undertaken, the reports received and the Audit opinion presented by the Internal Auditor, the Committee is of the opinion that - in relation to the audits undertaken in the period under review, Pembrokeshire College has reasonable and effective risk management, control and governance processes providing reasonable assurance to the Corporation Board for the achievement of the College's objectives.

10 The Future Role of the Committee

- 10.1 The Committee has supported and challenged the College Management throughout 2023/24, to ensure there is effective risk management mechanisms in place and compliance with governance requirements. It is resolved to continue the development of its role in line with legislative and good practice requirements.

Signed: _____

Chair of Audit Committee

Date: _____



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