

## MINUTES OF AUDIT COMMITTEE MEETING HELD ON 27<sup>TH</sup> SEPTEMBER 2021, REMOTELY VIA MICROSOFT TEAMS

<b>Present:</b>	Valerie Allen	Independent Governor
	Karen Banks	Independent Governor (Chair)
	Jayne Edwards	Independent Governor
	Andrew Macmanus	Independent Governor
<b>In attendance:</b>	Patrick Clark	ICCA (Internal Auditor) - minutes 1 to 29
	Julie Holland	Deputy Principal (Finance & Resources)
	Lesley Venables	Clerk to the Governors

### PART ONE

#### APOLOGIES FOR ABSENCE

1 There were no apologies for absence.

#### DECLARATION OF INTERESTS

2 No declarations of interest were received.

#### APPOINTMENT OF CHAIR

3 **Resolved -** That Karen Banks be appointed as Chair until the first meeting of the 2022/2023 academic year

#### MEETING WITH AUDITORS

4 The Committee met routinely with the Auditor in the absence of senior management and was informed that there were no issues to raise as a result of their work since June 2021.

#### MINUTES OF MEETING HELD ON 21<sup>ST</sup> JUNE 2021

5 **Resolved -** That the minutes (Parts 1 and 2) of the meeting held on 21<sup>st</sup> June 2021 be approved as a correct record and signed by the Chair.

#### MATTERS ARISING

6 The Committee received a list of actions resulting from the previous meeting and noted that all items were either in progress or had been completed.

7 Under minutes 135-136 the Deputy Principal reported that the College's bid to the ESFA's Capital Transformation Fund had reached the second stage, with further information required by 8<sup>th</sup> October. The Committee asked for clarification as to whether the work was

affordable within the College's own resources if the ESFA rejected the funding application. The Deputy Principal responded that, should that occur, only the £3m Green Technology Hub at the Kingsway Campus would be undertaken and would be financed from reserves. The remainder of the application comprised the replacement of the external cladding on the Kingsway main building, which may form a future project.

8 The Deputy Principal reported that the Financial Statements Auditors (Beever & Struthers) had not yet determined how they would be gaining assurance on the College's Individualised Learner Records system (minutes 152-153 refer). The Internal Auditors would be undertaking a mock funding audit early in this year, which may provide a level of assurance that could be used by the Financial Statements Auditor. Further information would be provided to the Committee when available.

9 In relation to minute 155 it was noted that the full financial statements and management letter would be submitted to the Committee's next meeting (November 2021).

### **EXTENDED ASSURANCE REPORT – SUB-CONTRACTOR CONTROLS 2020/2021**

10 The Committee received for information an Extended Assurance Report on Sub-Contractor Controls. The Deputy Principal explained that this was an annual audit required by the Education & Skills Funding Agency. The review had concluded that the College's arrangements provided a high level of assurance and robustness when compared to the rest of the sector.

11 One medium priority recommendation had been made, which had been accepted by management and would be implemented at the appropriate time in the academic year. This related to ensuring that a credit agency check was undertaken annually as part of the due diligence process on each of the organisations with which the College sub-contracted.

12 There had been some concerns over the financial performance of one of the sub-contractors (the Vikings Foundation) due to the impact of the COVID-19 pandemic. Governors were assured that the College had worked with this organisation for a number of years and a high level of contingency had been built into any financial arrangements. The ESFA was of the view that it was the College's responsibility to satisfy itself that the provision was robust and that the appropriate controls were in place, which was confirmed by the Deputy Principal.

13 The Internal Auditor reported that this type of issue was commonplace in the further education sector, particularly due to the pandemic. It was noted that payment to all sub-contractors was made on delivery, rather than in advance.

14 Committee members agreed that the risk-based approach taken by the College was reasonable in the circumstances and that the report should be submitted to the ESFA. A certificate of compliance would then be issued which would accompany the papers to be reviewed by the Financial Statements Auditor.

### **INTERNAL AUDIT REPORTS 2021/2022**

15 The Internal Auditor presented Internal Audit Reports on Benchmarking of Support Staff Costs and Follow-up of Recommendations from 2020/2021. A further report on Key Financial Controls had been due to be submitted to this meeting, but as it had not yet been fully validated by ICCA, this would be included on the agenda for the November 2021 meeting.

## **Benchmarking - Support Staff Costs**

16 Governors were informed that this piece of work was advisory and, therefore, no recommendations had been made as a result. It compared the College's costs in this area with those of general FE colleges and other similar sized organisations.

17 It was noted that pay expenditure on support staff was £600K below the sector median. Average levels of pay were higher in the majority of areas examined and there appeared to be a low volume but high-quality complement of support staff. A number of outliers had been identified such as IT, Marketing (the growth of which had been instrumental in the expansion of learner numbers) and Human Resources (where pay costs were high relative to the number of staff).

18 In response to questions on the status of the report's outcomes, the Committee was advised that the findings accurately reflected the College's long-term strategy. Management would now be reviewing the current staffing structure and profile to ensure that it aligned with the College's business needs.

19 The Deputy Principal commented that the findings of the review needed to be contextualised. It was noted that the figures quoted included both salary and on-costs (such as national insurance and pensions). The contributions to the Local Government Pension Scheme, the membership of which comprised support staff, were approximately 4.5% higher than sector averages. Staff retention rates were high at the College and this was partly due to its ability to provide annual pay increases and progression, together with paying staff the Real Living Wage as a minimum.

20 A few business support areas had been merged in recent years to improve efficiency, which meant that there were proportionately more staff in those departments. Governors also noted that the decision to close the College's Runcorn Campus had had a positive impact on financial viability and had enabled the College to invest in its staff.

21 A governor asked what proportion of staff completed the annual survey and how this related to the outcomes for each area within this report. The Deputy Principal reported that information on the results of the survey (by department) would be provided at the Board meeting in December.

22 In response to a question about the high levels of efficiency for transactional costs such as IT systems and the relatively small teams involved, the Deputy Principal reported that this was due to the College's strategy of increasing the amount of digitalisation of its internal processes.

23 It was agreed that the Finance & Resources Committee should receive the Internal Audit report, together with an analysis of the findings and how this related to the College's strategy.

## **Follow-up 2020/2021**

24 The Internal Auditor reported that there had been a total of 7 recommendations made by the Extended Assurance Auditor (KPMG) in 2020/2021, all of which had been implemented within the identified timescales. This meant that the College's internal controls had been graded as providing a substantial level of assurance in this area.

## **INTERNAL AUDIT PLAN 2021/2022**

25 The Committee received the draft Internal Audit Plan for 2021/2022, which had been compiled in discussion with management. All proposed areas of work had been mapped to the College's Risk Register and it was noted that none of these had been graded as high risk.

26 The Plan was based on a total of 29 days and covered the areas of apprenticeships, a mock funding audit, safeguarding, IT data security, anti-fraud and corruption processes and key financial controls. It was felt that this provided an appropriate level of cover of the College's operations.

27 A governor asked whether there was any overlap between the work on anti-fraud and corruption and that to be undertaken by the financial statements auditors. The Internal Auditor responded that, although this may help to reduce the sample size required by the external auditors, both pieces of work had a slightly different purpose – internal audit would focus on the strength of controls in this area, whereas the financial statements audit would concentrate on materiality levels.

28 The Committee queried why the proposed audit of English & Maths that had been included in the Three Year Strategy document presented to the Committee's previous meeting, had now been removed. The Internal Auditor responded that this was due to no issues being identified with the College's provision on English & Maths and that this would be reviewed as part of the audit work on apprenticeships. Any further reviews that the Committee felt to be appropriate could be added to the plan for 2022/2023.

29 **Resolved -** That the Board **be RECOMMENDED** to approve the Internal Audit Plan for 2021/2022

**Patrick Clark left the meeting at this point.**

## **RISK MANAGEMENT PROCESS REVIEW 2020/2021 & RISK MANAGEMENT POLICY**

30 Governors received for information the annual report on risk management for 2020/2021.

31 The College's risk management processes comprised three elements – the Risk Management Group (now known as the "Bubble & Blended Group), the Risk Register and the Risk Management Action Plan. A separate risk assessment had been prepared on COVID-19, covering all aspects of curriculum delivery and estates arrangements to address the requirements brought about by the pandemic. This was constantly being reviewed to reflect the latest Government guidance.

32 The Risk Register continued to be updated each half-term by the Risk Management Group. This provided a comprehensive tool for management and enabled the Audit Committee to monitor the effectiveness of the College's internal control systems.

33 No new sub-risks had been identified but it was noted that the risks now appeared in order of magnitude. The risk scores and the control status of the sub-risks in the risk register had been reviewed to ensure that they reflected the impact of COVID-19.

34 The items on the Risk Register were reviewed by the Risk Management Group and the Audit Committee on a cyclical basis. A list of 10 of the most significant risks was linked to the College's strategic objectives. The Committee would continue to receive an annual report on the full Risk Register, with intervening reports focusing on changes or improvements made.

35 Progress on the implementation of all recommendations made by Auditors was monitored by management and the Committee through the Risk Management Action Plan.

36 It was noted that the Risk Management Policy reflected the Internal Audit process in operation at the College and any previous recommendations made by the Auditors, such as incorporating a statement on the College's risk appetite. A number of minor amendments had been made to the Policy.

37 The Committee also received information on the sources of assurance that featured within the College's processes. Governors asked that this be updated and commented that there was some misalignment between the documentation. It was also important for members to understand the process for escalating operational risks to the level of strategic risks.

- 38 **Resolved -**
- 1 That, subject to some further work on the documentation, the Risk Register and the list of strategic risks be submitted to the Board for information
  - 2 That the information contained in the Annual Risk Management Report for 2020/2021 be noted
  - 3 That the Board **be RECOMMENDED** to approve the Risk Management Policy for 2021/2022

## **ASSESSMENT OF CONTROLS ON FRAUD & IRREGULARITY**

39 The Deputy Principal (Finance & Resources) presented a report on the assessment of controls on fraud and irregularity. The Committee was advised that, under the International Standard on Auditing (240), the Board was required to make representations on fraud and irregularity and the controls in place to mitigate them, when approving the Financial Statements for 2020/2021.

40 A review of the likely areas where fraud or irregularity could occur had been undertaken, with an assessment of all relevant controls to address any potential weaknesses. Each possible area of fraud had been linked to a specific risk(s) on the risk register. A full risk and sensitivity analysis had been carried out as part of the Financial Plan for 2021/2022. In response to a question on the number of instances of theft during the year, the Deputy Principal reported that there had been none and that procedures were extremely tight and well-controlled.

41 It was noted that controls were in place to reduce the possibility of fraud or irregularity in each of the areas identified. All governors would be asked to complete a fraud awareness questionnaire. Together with the fraud and irregularity self-assessment summary and the assessment of anti-fraud measures (Annex D of the Post-16 Audit Code of Practice and Annex B which related specifically to COVID-19 arrangements), this should provide sufficient assurance to enable the Chair to sign the letter of representation relating to the financial statements for 2020/2021 at the December 2021 Board meeting.

42 The Committee received the Regularity Self-Assessment for 2020/2021, which required approval by the full Board.

- 43 **Resolved -**
- 1 That individual governors be asked to complete the fraud and irregularity questionnaire

- 2 That the self-assessment of controls on fraud and irregularity be approved
- 3 That the Board **be RECOMMENDED** to approve the Regularity Self-Assessment Questionnaire and the Anti-Fraud Checklist for 2020/2021

### **COMMITTEE SELF-EVALUATION 2020/2021**

44 The Clerk presented a draft of the Committee's Self-Evaluation of its performance in 2020/2021, which was then discussed by governors. It was agreed that training for governors on their legal responsibilities should be added to the list of potential topics for 2021/2022.

45 **Resolved -** That the Committee's Self-Evaluation for 2020/2021 be approved

### **ESFA'S AUDIT CODE OF PRACTICE AND COMMITTEE TERMS OF REFERENCE**

46 At the June meeting the Clerk had presented a report on recent revisions to the ESFA's Audit Code of Practice. Since then the Committee's terms of reference had been reviewed and a number of amendments were proposed.

47 The new Code required the Committee to consider the skills and expertise necessary to enable it to perform its responsibilities effectively. It was agreed that this would be discussed at a future meeting and could then inform any recruitment process or changes to overall committee memberships. Given the importance of financial solvency and sustainability within the further education sector, it was suggested that a further member with financial/audit/risk management type skills would be a useful addition to the Committee's profile.

48 It was agreed that the Committee's timetable of business for the year should include ways of gaining assurance over the safeguarding of the College's assets. The Deputy Principal advised that physical assets were already partly covered by the work of the Finance & Resources Committee, together with the recent audit of capital projects. A mock funding audit was due to take place shortly, which should provide assurance over data controls and integrity.

49 **Resolved -** That the Board **be RECOMMENDED** to approve the Committee's revised terms of reference

### **ITEMS TO BE REPORTED TO THE BOARD**

50 The Chair summarised the outcomes of the meeting and identified the following matters which would be brought to the attention of the Board in a written report at its meeting on 18<sup>th</sup> October 2021:

- Appointment of Chair
- Reports received on ESFA Sub-contracting
- Internal Audit Reports on Benchmarking of Support Staff Costs and Follow-Up of Recommendations in 2020/2021 were received for information

- Internal Audit Plan for 2021/2022, Risk Management Policy, Regularity Self-Assessment, Annexes A, B and D of the Post-16 Audit Code of Practice and revised Terms of Reference were recommended for approval by the Board
- Committee's Self-Evaluation for 2020/2021 had concluded that the terms of reference had been fulfilled

**DATE OF NEXT MEETING**

29<sup>th</sup> November 2021

**Signed:**

*Kam Sauls*

**Chair of Audit Committee**

**Date:**

**15<sup>th</sup> December 2021**