

## MOULTON COLLEGE

### AUDIT COMMITTEE

**Present:** Mr A Clarkson (in the Chair), Ms L Knapp, Mr B Hansford (phone) and Mrs H King

**In attendance:** Miss A S Bruce, Mr M Dawson (KPMG), Mrs C Harris, Mrs G M Hulley, Mr S Newlyn and Mr S Winter (Icca Education Training and Skills)

#### PART 1

**19/35 Apologies for absence (Agenda item 1)**

There were no apologies for absence.

The agenda had been reordered as Mr Hansford was unable to attend the meeting in person but was available via telephone until 6.00pm.

**18/36 Declarations of interest (Agenda item 2)**

There were no declarations of interest.

**18/37 Minutes of the last meeting (Agenda item 2, Paper A)**

The minutes of the meeting held on the 25<sup>th</sup> June 2019 had been circulated previously and were accepted as a true and accurate record.

**18/38 Actions outstanding from previous meetings (Agenda item 3, Paper B)  
Action 19/07, Governor Development Day – TLA risks:**

The Committee agreed that it now received additional assurances around quality as a result of extra meetings and the various processes that now involved governors. As a result, governors can see at first-hand what progress was being made. (Closed)

**Action 19/11, GDPR Training:**

Now that governors had College email logins, the Clerk to the Corporation would circulate the link to the online training module. (Open)

**18/39 Financial Statements Auditor (Agenda item 4)**

**a. Audit highlights memorandum and management letter (Paper H)**

The financial statements auditor reported on the audit for the year ending 31<sup>st</sup> July 2019. The Audit Committee considered the Draft Audit highlights memorandum and management letter at its meeting.

The Committee was informed of the findings relating to risks that form the basis of the external audit.

- i. **Revenue recognition:** Subject to receipt of the final funding confirmations from the ESFA (Education and Skills Funding Agency), no significant issues arose from work in those areas.
- ii. **Management override of controls:** No issues were noted in respect of detailed testing of journals and their impact on the financial statements. No issues were noted in respect of accounting policies, assumptions or methods used to prepare accounting estimates. No significant

transactions that were outside the College's normal course of business, or that were otherwise unusual, were identified.

- iii. **Pension liabilities:** The review of the College's Local Government Pension Scheme liabilities was outstanding at the time of the Audit Committee. The key assumptions used were within the external auditor's benchmark range, but at the time of their report, there were a number of outstanding inquiries with the scheme actuary.
- iv. **Overall financial position:** The review of this area was outstanding at the time of the Audit Committee in order for the external auditor to work with the most up to date financial information at the point of signing. The external auditor noted that the College's overall financial sustainability remained weak and that improving the College's financial health continued to be a key priority. There were some specific priorities associated with achieving the College's financial forecasts including the need for further renegotiation of banking facilities and loan covenants, the progression of planned property sales, and the updating of the recovery plan in response to the current student recruitment position and the most recent recommendations from the FE Commissioner.
- v. **Regularity:** A use of funds audit programme was completed to confirm compliance with the requirements of the Office for Students and Research England terms and conditions of funding. Through the testing of controls and substantive items of expenditure, the external auditor tested whether, in all material respects, funds had been used for the purposes given (including all sources of grant funding). There were no issues to report in respect of the above.

Subject to resolving the outstanding matters highlighted above, the External Auditor indicated that they intended to issue an unqualified audit opinion on the College and subsidiary financial statements for the year ending 31<sup>st</sup> July 2019.

The steps being taken to resolve the outstanding matters were subject to ongoing discussions and all governors were fully aware of the actions that needed to be taken before the accounts could be signed off.

Following discussion, *it was agreed that the report could go forward to the next Corporation meeting in December 2019.*

#### **b. Teachers' Pension Scheme Audit (Paper M)**

The letter provided confirmation that the audit had been completed. Following discussion, *the report was noted.*

18/40

#### **Moulton College Group report and financial statements 31<sup>st</sup> July 2019 (Agenda item 5, Paper I)**

The report was outlined and discussed. It presented the accounts for Moulton College. Members' attention was drawn to additional information that was now included relating to extra disclosures around pay multiples and staff costs in line with requirements of the Office for Students. Members' attention was also drawn to the significant impact that pension costs had had on the presentation of the accounts. The final version of this report would be presented to the Finance and Resources Committee on the 16<sup>th</sup> December 2019 for consideration. Following discussion, *the report was recommended for consideration by the Finance and Resources Committee on the 16<sup>th</sup> December 2019 in order to be approved by the Corporation on the 19<sup>th</sup> December 2019. This was subject to resolving the going concern question.*

18/41

**Subsidiary Accounts 31<sup>st</sup> July 2018 (Agenda item 6)**

**a. Moulton College Developments Ltd (Paper I)**

**b. Moulton College Enterprises Ltd (Paper J)**

**c. Moulton Trading Ltd (Paper K)**

The reports were outlined and discussed. An audit on the three subsidiary companies was completed pursuant to International Auditing Standards (UK) and the Companies Act 2006. There were no material unadjusted audit differences. Subject to three minor matters which would remain outstanding until the time the subsidiary accounts would be approved by the respective Boards of Directors; it was anticipated that an unqualified report would be issued on each of these subsidiaries. Following discussion, *the reports were recommended for consideration by the Finance and Resources Committee on the 16<sup>th</sup> December 2019 in order to be approved by the Corporation on the 19<sup>th</sup> December 2019. This was subject to resolving the going concern question.*

18/42

**Risk management (Agenda item 7)**

**a. Revised approach (Paper Ci)**

**b. Annual risk management report (Paper Cii)**

The CFO outlined the revised approach to risk management. The proposed new policy set out the basis on which the College would manage risk, the roles and responsibilities of governors and staff for risk management and how it would be monitored for effectiveness. The policy included a new set of risk descriptors and probability scale which would drive up consistency and ensure a common understanding of what risk actually meant for the College. The Committee recommended that on Page 10, 'second level of assurance' in the board assurance framework section, there was a need to make the monitoring role of governors more explicit. Members received assurance around staff training and were informed that this had already commenced and further training planned.

**c. Risk register and action plan (Paper Ciii)**

The current number of risks that were scored above the College's risk appetite were greater than anticipated. Each risk was owned by a member of the Senior Leadership Team. Members were informed that where a risk was red, there could be a more positive direction of travel; arrows were used to demonstrate this. The full risk register would be shared with each of the Committees so that they could continue to monitor risks associated with their areas. The CFO outlined the process to be followed by Committees for reporting any issues or changes which in turn, would be reported to the Audit Committee. In response to a question around the extent to which review dates were sufficiently challenging, the register was subject to a further review by SLT and some milestones would be included. Following discussion, *it was agreed that the risk management policy would be recommended for approval by the Corporation in December 2019.*

18/42

**Audit self-assessment questionnaire (Agenda item 8, Paper F)**

The College completed the questionnaire as part of the regulatory audits. Completion of the questionnaire confirmed compliance with the financial memorandum between the College and the ESFA (Education and Skills Funding Agency). In terms of the evidence presented in the report for safeguarding assets, it was agreed that this was sufficient and relevant. The report related to the year ending July 2019. No areas of concern were identified but two changes were requested. Following discussion, *it was*

*agreed: Page 5, provide additional level of detail in terms of a validation process in relation to internal controls for the Corporation; Page 8, confirm total expenses following discussion with finance team; and, to recommend the self-assessment to the Corporation for signature by the Accounting Officer and Chair of Governors at the Corporation meeting on the 19<sup>th</sup> December 2019.*

- 18/43      Audit Committee Annual Report 2017-18 (Agenda item 9, Paper M)**  
The draft report was discussed. It had been prepared by the Clerk to the Corporation on behalf of the Committee. The report set out the matters that the Audit Committee was required to report on to the Corporation including its conclusions in respect of risk management, internal control, regularity and external audit. The Committee identified:
- Opportunities to edit the report further so that the key messages were succinct.
  - Further examples of assurance that should be included in the report prior to its circulation to the Corporation.
- Following discussion, an updated version of the report would be circulated to the Committee for consideration (Action 27, Clerk, 12<sup>th</sup> December 2019); and, the report was noted.*
- 18/44      Policy approval: Anti-fraud and Bribery Policy (Agenda item 10, Paper Q)**  
The policy was presented for approval every two years. It now included a detailed fraud response plan. The policy included a number of appendices including the ESFA's (Education and Skills Funding Agency's) Anti-Fraud checklist which had been completed and was further evidence that the College had appropriate procedures in place. The Committee was informed of training that had been planned for staff to support the implementation of the policy. Following discussion, *the Committee recommended the policy to the Corporation in December 2019 for approval.*
- 18/45      Internal Audit Action Tracker (Agenda item 11, Paper D)**  
The report provided the Committee with progress that management had made in implementing agreed internal audit recommendations. The report related to the period June to November 2019. In summary, just over half of the recommendations had now been implemented or partially implemented for 2018-19 audits. A further 26% were in progress and 7% not yet due for completion. Where slippage had occurred, the CFO explained the rationale for this which was mainly due to staff vacancies. These resourcing issues had now been resolved and it was expected that the recommendations would be completed within the revised timescales. Following discussion, *the report was noted*
- 18/46      Board assurance framework (Agenda item 12, Paper E)**  
The latest version of the board assurance framework was outlined and discussed. The purpose of the report was to help the Audit Committee and Corporation understand where assurance was obtained in relation to the organisation's significant risks. Members' attention was drawn to the different levels of assurance that were currently available for each of the risks. There had previously been too much reliance on external agencies. This was improving with the introduction of programme monitoring boards and the use of dashboards and key performance indicators. This resulted in a significant improvement in the quality of information provided by management as well as providing a robust set of data. In response to a question from the Chair, the

CFO confirmed that the report would be updated to reflect the additional processes and activities that governors were getting involved in. Following discussion, *it was agreed that the report would be updated to show 'direction of travel' (Action 28, CFO, December 2019); and, the report was noted.*

**18/47**

**Annual Internal Audit Report 2018-19 (Agenda item 13, Paper N)**

The Internal Auditor's assurance statement confirmed that they were satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of the College's risk management and systems of internal control. Insufficient work was undertaken to allow an opinion to be formed in relation to the College's governance arrangements.

Based on the work undertaken during the year, the 'exception' noted below, and the implementation, by management, of previous internal audit recommendations, the Internal Auditor could provide the Audit Committee and Corporation with 'reasonable assurance' that the College's risk management, and systems of internal control were operating adequately and effectively, and that there were no instances where any breakdown of control resulted in a material discrepancy.

With the exception of those areas giving rise to 'Limited Assurance' opinions and 'High Priority' recommendations (see below), in the Internal Auditor's opinion, the College had adequate and effective risk management, and systems of internal control in place to manage the achievement of its objectives and securing economy, efficiency and effectiveness.

As a result of the Internal Auditor's work undertaken in 2018-19, six significant control issues were identified, leading to 'High Priority' recommendations, and a 'Limited Assurance' opinions\* in relation to:

- IT Data Security, Infrastructure and Disaster Recovery;
- ESFA Learner Records and Funding - Apprenticeships\*; and,
- ILT Strategy.

The Chair of Committee confirmed that 'Reasonable Assurance' was the highest level of assurance the College could receive. Action had been taken in relation to two of the 'exception' reports. The third would be addressed during the current academic year. Following discussion, *the report was noted*

**18/48**

**Internal Audit Reports (Agenda item 14)**

**a. List of internal audits 2019-20 (Paper O)**

The report contained a list of proposed audits for the rest of the academic year. Two audits that had not been completed in 2018-19 had been added to the list for completion in this academic year. The Chair of Committee emphasised the importance of the timing of the audits so that reports were finalised in readiness for each Committee meeting in March and June 2020. The Committee agreed that further consideration should be given to whether the curriculum efficiency internal audit could be brought forward as the internal work may be completed to accommodate this change. Further investigation was required to establish whether an internal audit of 'financial planning and reporting framework' was needed. The Committee queried whether this would duplicate work that had already been completed in this area by external agencies. Following discussion, *it was agreed that any changes to the list would be communicated to the Chair of Audit; and, the report as received.*

Mr Hansford left the meeting (6.00 pm).

**b. Performance Management of Teaching Staff (Paper P)**

The report carried an overall assurance rating of 'Reasonable'; it contained 2 medium priority recommendations. The design was 'Good'. The first medium priority recommendation was due to the timing of the review which was early in the new cycle of the performance management process. As a result, it was not possible to fully assess the effectiveness of a number of processes. It was agreed that an internal audit of the remainder of the process would be completed, at no extra cost to the College, in Spring 2020. The second was in relation to measuring impact. The report acknowledged how the impact of the interventions was reported through monthly reports on observations of teaching, learning and assessment at the performance monitoring boards, senior leadership team and TLA Committee meetings. As a result, any impact of improving grades would be evidenced throughout the year. The internal auditor confirmed that the current report would be updated to reflect the findings following the next visit in Spring 2020. Following discussion, *the report was received.*

**18/49 Any other business (Agenda item 15)**  
There was no other business.

**18/50 Date of next meeting (Agenda item 16)**  
Monday, 9<sup>th</sup> March 2020 in Thornby.

Part 1 of the meeting ended at 6.10 pm. Mrs C Harris, Miss A S Bruce and Mr S Newell left the meeting.