

AUDIT COMMITTEE

Minutes of the meeting held on Monday, 28th November 2022 at 4.00pm in the IT Suite

Present: Mr A Clarkson (in the Chair), Dr P Jones (via Teams), Mr A Keers (via Teams), Mrs H King, Miss L Knapp and Mrs K Squires

In attendance: Miss A S Bruce, Mrs S Bunney, Mrs C Harris, Mr M Dawes (KPMG), Mrs G M Hulley, Mr J Lanes (BDO) and Mr M Mason (KPMG)

SECTION A – ROUTINE AND GOVERNANCE ITEMS:

22/32 Apologies for absence (Agenda item 1)

Apologies were received from Mr D Aarons and Mr N Inge.

Karen Squires and Aaron Keers were welcomed to their first meeting of the Committee as recently appointed staff governor and co-optee respectively. Sarah Bunney was also welcomed as the new Director of Finance.

22/33 Declarations of interest (Agenda item 2)

There were no declarations of interest.

22/34 Minutes of the last meeting (Agenda item 3, Paper A)

The minutes of the meeting held on the 27th June 2022 had been circulated previously and were approved as a true and accurate record.

22/35 Actions outstanding (Agenda item 4, Paper B)

The four outstanding actions had either been completed or were subject to discussion at the meeting.

SECTION B – CHIEF OPERATING OFFICER'S UPDATE:

22/36 Risk management (Agenda item 5, Paper C)

The report confirmed that overall, the risk profile of the College had improved during 2022 with three of the nine strategic risks remained above the College's risk appetite for securing long-term financial viability, reliance on bankers and limited capital investment available for improving the aging IT infrastructure of the College. This was reflected in the corporate risk register where six of the 36 risks remained above the College's risk appetite and related to the impact of business disruption (eg economic downturn, cyber, supply chain) and the ongoing suppression of FE funding. The Chief Operating Officer (COO) confirmed that the Risk Management Policy was in the process of being updated and would be finalised in time for the March 2023 meeting.

In response to questions raised by the Committee, the COO confirmed that in relation to 'S8 - changes to government policy,' until there was a better understanding of the implications associated with the ONS (Office for National Statistics) reclassification, it would not be possible to review this risk. A decision on whether colleges in England would be reclassified as public sector bodies was expected the next day.

Resolved: To receive the risk management report.

22/37 Internal audit recommendation tracker (Agenda item 6, Paper D)

All historic recommendations had now been implemented. The College was now only monitoring actions from 2021-22 and 2022-23 going forward. Overall, 42% of current recommendations had been implemented or partially implemented with a further 39% in progress or not yet due. There were 19% on hold pending further review and resources to be allocated. Progress had been made in this area with nine

recommendations now being partially implemented or in progress and only six now on hold pending further review and allocation of resources. A security consultant had recently been appointed who would provide support to the College which included reviewing and prioritising the outstanding recommendations.

In response to a question about the recent recruitment process, the COO confirmed that a procurement process had been completed; submissions were received from three organisations; and, the Network Development and Services Manager had overseen this process. The COO also explained that the new appointee was a specialist. The Committee recommended that a project plan should be produced that detailed the specific tasks that needed to be completed together with a timeline. The Principal confirmed that such a plan would be monitored via the COO's Project Monitoring Board. The Chair highlighted that the IT risk was overseen by the Board and it was important that it could be monitored at those meetings. The COO confirmed that a report was being prepared for the next meeting of the Corporation and that it would provide governors with information in order to monitor this risk (**Action 28 – COO**).

Resolved: To receive the internal audit recommendation tracker.

22/38 Board assurance framework (Agenda item 7, Paper E)

The College had significantly improved the level and range of assurances available to governors relating to how effectively risks were being managed. Risks that were reviewed as part of the process exceeded the College's risk appetite which included eight strategic risks, six corporate risks plus one for safeguarding. In the last 12 months, the College had continued to provide governors with high quality data rich information which had increased confidence in management reporting, internally and externally. The COO confirmed that since the last meeting in June 2022, the IT risk rating had been changed to Amber and some additional notes had been added.

The COO highlighted that the report confirmed that there were good levels of assurance: good quality information and data from management; reports from the internal audit process; and, external agencies (Landex peer review) and FE Commissioner. The Chair confirmed that there were sufficient assurances from a range of sources but it was not comprehensive.

Resolved: To receive the Board Assurance Framework report.

22/39 Governance (Agenda item 8, Paper F):

a. Audit self-assessment regulatory questionnaire

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). The report related to the year ending July 2022. No areas of concern were identified.

b. Audit Committee annual report

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 governance, risk management, internal control, regularity and external audit. The report acknowledged that the Committee was satisfied with the additional evidence presented in relation to gaps in assurance for IT. Sufficient progress was being made in order to provide the level of assurance that was required. It was agreed that the report should be updated to reflect the positive external governance review completed in 2021 (**Action 29 – Clerk**).

Resolved: To recommend the Self-Assessment Regulatory Questionnaire and the Audit Committee Annual Report for approval by the Corporation.

SECTION C – EXTERNAL AUDITOR UPDATE:

22/40 Audit Highlights Memorandum and Management Letter (Agenda item 9, Paper G.1)

The Audit Committee considered the Draft Audit highlights memorandum and management letter at its meeting on 28th November 2022. The External Auditor reported on the audit for the year ending 31 July 2022 and findings in respect of the auditor's identified significant risks:

- **Revenue recognition:** No significant issues arose from work in relation to processes in place for accounting for funding body income or other non-material revenue streams.
 - **Management override of controls:** Sampling of journal entries and other adjustments meeting certain high-risk criteria did not identify any inappropriate entries. No issues were noted in respect of accounting policies, assumptions or methods used to prepare accounting estimates. No issues were identified in respect of journal controls. No significant transactions that were outside the College's normal course of business, or that were otherwise unusual, were identified.
 - **Pension liabilities:** The review of this area in relation to the valuation of LGPS pension liabilities / pension provision was currently ongoing at the time of the Audit Committee. [An adjustment was made to the accounts to reflect the impact of emerging inflation to 31 July 2022 which had the effect of increasing the net pension liability by £1.6m]. Although the management review controls (as defined by the International Standards of Auditing) were difficult for auditors to rely on as auditing standards require a level of precision and formalisation that are generally not seen in practice. A formal control observation would not be raised it was considered the College's approach to be proportionate.
 - **Overall financial position and going concern:** The review of this area was ongoing at the time of the Audit Committee in order for KPMG to work with the most up to date financial information at the point of signing. The External Auditor noted that the audit had not identified any indications that the College is unable to continue as a going concern for at least 12 months from the expected date of approval of the financial statements.
- (b) **Regularity:** A use of funds audit programme was completed to confirm compliance with the requirements of the ESFA, Office for Students and Research England terms and conditions of funding. Through the testing of controls and substantive items of expenditure, KPMG tested whether, in all material respects, funds have been used for the purposes given (including all sources of grant funding). There were no issues to report in respect of the above.

The Committee received assurance that the external audit process was not affected by the impending decision by the ONS about reclassification¹. Subject to resolving the outstanding matters highlighted above, the External Auditor indicated that they would issue an unqualified audit opinion on the College financial statements for the year ending 31 July 2022. The external auditor would present the report to the full Corporation at its meeting on the 8th December 2022.

¹ Further confirmation received on the 30th November from the external auditor: *classification into the public sector does not in itself change any of the legal or regulatory framework impacting on the college, and the DfE's announcement today whilst pointing to changes that are coming does not itself make any changes that impact on the accounts.*

22/41 Draft Letter of Representation (Agenda item 9, Paper G.2)

The report included details of all the confirmations that had been noted from the audit. The Chair confirmed the report was in line with expectations.

Resolved: To recommend the Audit Highlights Memorandum and Management Letter and the Letter of Representation to the Corporation for approval.

22/42 Moulton College financial statements 31st July 2022 (Agenda item 10, Paper H)

The Director of Finance explained that the accounts were in draft form with the outstanding audit matters highlighted in the Audit Highlights Memorandum prepared by KPMG. The results for 2021-22 confirmed: £2.5m increase in income from the prior year reflecting growth in student numbers; staff costs and other operating expenses increased by £2.5m from the prior year; £0.35m gain on asset disposals; and, a reduction of £0.8m in bank debt. The FRS 102 (non-cash) pension adjustments from the actuaries added £1.3m to Staff Costs and £0.2m to interest costs, whilst grant income of £0.6m was recognised in respect of the FE Capital Allocation and the Countryside Stewardship (farm) grants. The FRS 102 pension adjustments also resulted in a £13.9m reduction in the pension deficit (balance sheet). The overall result was an increase in College reserves of £12m to £26.1m. The accounts were prepared on the going concern basis reflecting the impact of the recent loan restructuring agreed with Santander which removed the £1.3m repayment due in December 2023 (rescheduling the repayment of this amount over an extended period to 2031, and postponing the £50k quarterly repayments on the £3.5m by a further 24 months).

Resolved: To recommend the Moulton College Report and Financial Statements to the Corporation for approval.

SECTION D – INTERNAL AUDITOR UPDATE:**22/43 Internal audit reports 2021-22 (Agenda item 9):**

The internal auditor confirmed that the first two audits were health and safety and GDPR. Scoping meetings for both audits had been held and terms of reference were being prepared. The terms of reference should be agreed before the end of the academic year. The Committee would receive reports on both internal audits in time for the next meeting in March 2023. The Committee received confirmation that the ILT audit would be an advisory report. The Committee queried why there had been a delay in starting the internal audits. The internal auditor confirmed it was fairly standard practice for the first audits to be completed in December.

Resolved: To receive the Internal Audit Annual Report 2022-23.

SECTION E – CLOSING ITEMS:**22/44 Any other business (Agenda item 13)**

- a. Further Education – Update for Audit Committees and Governing Bodies: A copy of this report had been circulated previously. The report included information on new audit standards in relation to risk assessment and planning.
- b. Office for Students: The Committee's attention was drawn to an article published by the OfS in relation to partnership arrangements with HE and due diligence engagement with courses.

22/45 Date of next meeting

Monday, 27TH March 2023 at 4.00pm

Meeting closed at 5.30pm