

AUDIT COMMITTEE

Minutes of the meeting held on Wednesday, 26th June 2023 at 4.00pm in the IT Suite

Present: Miss L Knapp (in the Chair), Mr D Aarons, Mr A Keers (Teams), Mrs H King, Mrs K Squires, Mr A Thomson and Mr M Wakeford (Teams)

In attendance: M D Aldridge, Miss A S Bruce, Mrs C Harris, Mrs G M Hulley and Mr J Lanes (BDO)

SECTION A.1 – ROUTINE AND GOVERNANCE ITEMS:

23/16 Apologies for absence (Agenda item 1)

David Aarons, Noel Inge and Mark Dawson (KPMG) sent their apologies.

23/17 Declarations of interest (Agenda item 2)

There were no declarations of interest.

SECTION B GOVERNANCE:

23/18 Governance 2023-24 (Agenda item 3, Paper A):

- a. **Meeting dates:** The first meeting of the academic year would take place on the 18th September 2023 at 4.00pm.
- b. **Terms of reference:** It was agreed that paragraphs 7, 8 and 9 should be retained.
- c. **Business cycle:** Agreed.

Resolved: To recommend the governance 2023-24 report to the Corporation.

23/19 Potential related party transaction (Agenda item 4, Papers BB and CC)

This was a confidential item recorded at the end of these minutes.

Mrs C Harris and Miss A Bruce joined the meeting.

SECTION A.2 – ROUTINE AND GOVERNANCE ITEMS:

23/20 Minutes of the last meeting (Agenda item 3, Paper B)

The minutes of the meeting held on 5th April 2023 had been circulated previously and were approved as a true and accurate record.

23/21 Actions outstanding (Agenda item 4, Paper C)

There were no actions outstanding.

SECTION B – CHIEF OPERATING OFFICER'S UPDATE:

23/22 Risk management (Agenda item 5, Paper D)

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. Risks relating to reliance on bankers has reduced following reclassification of FE Colleges into the public sector in November 2022. The team continued to follow up with the ESFA/DfE to discuss how the College debt could continue to be reduced. The Corporation was still due to carry out a full review of the strategic risks in line with the risk management policy. The policy was reviewed by the Audit Committee in April and would be reapproved by the Board on 6th July 2023.

The Executive was asked for an update on progress following the meeting with the CEO from the ESFA. The Principal confirmed that it was agreed they wanted to be supportive and find a solution. A request had already been received for a range of financial documents to be submitted. In terms of timeline, the COO had asked that requested the situation needed to be resolved before December. This would help with the financial statements in terms of a going concern. In principle agreement by that time would be more than acceptable. A question was raised about whether the promoter payment had been received and the COO confirmed the PSA was not yet signed but it was hoped this would be completed in the next seven days subject to a Board written resolution. In terms of impact upon investing these monies in the IT infrastructure, the COO confirmed that she had started to obtain quotations for leasing arrangements.

Resolved: To receive the risk management report.

23/23 Board assurance framework (Agenda item 6, Paper E)

The College had continued to improve the level and range of assurances available to governors relating to how effectively risks were being managed. Risks that were reviewed as part of this process exceeded the College's risk appetite which included nine strategic risks, four corporate risks plus safeguarding, health and safety and IT/cyber security. The COO confirmed that there were probably fewer assurances around teaching and learning as this was previously based on evidence from Ofsted; there was the potential to gather evidence from a Landex review. The COO had started discussions with the new auditors. A meeting was planned for September when the Committee would have sight of the proposed internal and external plans. In response to a specific question about gaps in relation to 'maximising opportunities to develop profitable commercial activity,' the COO explained that an external review would need to be commission which would come at a cost. The Principal suggested it would be worth approaching Landex for their advice (**Action 30 – COO**),

Resolved: To receive the board assurance framework.

23/24 Internal audit action tracker (Agenda item 7, Paper F)

Six reports had been issued with a total of 18 recommendations. BDO had also followed up 14 recommendations from 2021-22 reports of which two remained to be fully implemented. Overall, 65% of recommendations had been implemented or partially implemented with a further 28% in progress; 3% not accepted; and, 3% not yet due. The IT security recommendations had been overtaken by a security posture review which had ten recommendations; these will be reported on at the next Audit Committee meeting. Mr Lanes sought confirmation from the COO that the new internal auditors would take responsibility for following up actions identified in existing reports; this was agreed (**Action 31 – Internal Auditors**).

Resolved: To receive the internal audit action tracker report.

23/25 Insurance report 2022-23 (Agenda item 8, Paper G)

The College had maintained adequate insurance over the course of the financial year. Claims had been effectively managed and action taken to mitigate any risks identified as a result of an insurance claim. There had been an increase in premiums due to a claims history and general inflationary increases in insurance. The cost of insurance had increased by £10k since the previous year; the renewal process was underway and premiums were set to increase by a further £8k. The Chair of Committee questioned when the last time that the broker had changed and the COO confirmed this was approximately 5 years. It was agreed that it would be worth testing the market for an alternative. Mr Lanes offered his advice based on

experience from working with other colleges. He suggested that some colleges could not get enough quotations; and the importance of the broker having the capability for the sector.

Resolved: To receive the insurance report.

SECTION C – INTERNAL AUDITOR UPDATE:

23/26 Internal Audit reports (Agenda item 9)

a. Data quality (Paper H.1):

The report carried an assurance rating of 'limited' for design and 'moderate' for operational effectiveness. The report highlighted three areas of improvement all of which were of medium significance.

The report confirmed a number of areas of good practice in relation to: power BI dashboards and funding information service. Areas for improvement were identified around: lack of documented policies and procedures (a reliance on the experience of the MIS department to complete key processes); unit-e user access rights (an increased likelihood of data being changed incorrectly or inappropriately); and, ILR approval (a risk that the final ILR would be submitted to the ESFA with unresolved data errors which could negatively impact the College's funding). The COO confirmed a secondary review as being completed but a form wasn't signed as evidence. The Chair recommended the need to have an appropriate audit trail.

The report confirmed the management response which was in agreement with the findings. One action had already been implemented; the remaining two would be completed by June 2023.

b. Budget setting and financial monitoring (Paper H.2):

The report carried an assurance rating of 'substantial' for design and 'substantial' for operational effectiveness. The report highlighted two low significance findings.

The report confirmed an area of good practice in relation to the Finance Business Partner who helps budget holders to strategically plan their budget. Areas of improvement related to: budget holder training (risk of budget under-performance due to lack of formal training) and action plans (budget holders not being held accountable to agreed actions as live actions are stored in personal emails). The report confirmed the management response which was in agreement with the findings. One action had been implemented; the second would be completed by June 2023.

c. Apprenticeships (Paper H.3):

The report carried an assurance rating of 'substantial' for design and 'moderate' for overall effectiveness. The report highlighted one medium significance finding relating to learner progress and progression monitoring. Based on a sample of 15 apprentices, progress review meetings had not taken place at least every 12 weeks for two apprentices which was a requirement under the funding rules. The Principal confirmed that at the time of the audit, the skills coaches were not in post. Two areas of good practice were identified as part of the review: up-to-date apprenticeship policy and procedure guide; and, lesson learner process undertaken. The report confirmed the management response which was in agreement with the finding. The action would be completed by June 2023.

d. Payroll (Paper H.4):

The report carried an assurance rating of 'limited' for design and 'limited' for operational effectiveness. The report highlighted one finding of high significance; three of medium significance; and, 3 of low significance. All of the findings needed to be addressed to strengthen the internal control environment.

The finding with high significance was segregation of duties where there was a potential risk of erroneous or fraudulent payments being made due to uncontrolled breakdowns in the segregation of duties. The report confirmed the management response had accepted the recommendation. Due to the small size of the HR team, the 'hard' segregation of the tasks may cause greater operational issues in the event of absences and restrict mobility of the team. In relation to leavers, as the end dates were confirmed in writing which was approved by the EDHR or HRM, this provided the additional evidence for this action which the EDHR considered sufficient at this time.

The three findings of medium significance related to: policies and procedures; system access; and, mileage / claim forms. The report confirmed the management response was in agreement with two of the findings with implementation dates of August 2023. Agreed in principle was given to mileage / claim forms as it was not felt viable to purchase a dedicated expenses module for the relatively low amount of expenses which are processed each month. The Committee commented that there was an approval process on Teams which could be used at no extra cost (**Action 32 – EDHR**).

e. Follow up report (Paper H.5):

The Internal Auditors had completed a review as to the degree of implementation of Internal Audit recommendations made in prior years. This would determine the adequacy, effectiveness and timeliness of actions taken by management to address the risks within the audit findings. There were 14 findings graded of high or medium significance where the implementation date had passed. Due to the ongoing implementation of and engagement of external contractors for the recommendations relating to IT, general controls and IT security, the 22 (five high, 17 medium priority) recommendations had been deemed out of scope for this review. The report confirmed that nine of the recommendations were fully implemented; two were being implemented; and, three superseded. Of the remaining three recommendations, management had accepted the risks and did not intend to take any further action. The report confirmed good progress was being made by the College in improving the controls framework. Management should continue to monitor the progress of the two actions that were being implemented to ensure they were closed out promptly.

f. Annual report (Paper H.6):

A requirement of the Internal Audit process was to provide the Corporation, via the Audit Committee, with an opinion on the adequacy and effectiveness of the College's risk management, governance and internal control processes. The report confirmed that, based on the work undertaken in 2022-23 (where a substantial or moderate assurance was provided for the reports issued), in the context of materiality and subject to management addressing the recommendations raised during the year in a timely manner:

- a. Governance, risk management and internal controls arrangements in the areas reviewed were found to be suitably designed to achieve the specific risk management, control and governance objectives. The opinion was made with the exception of the design of Data Quality and Payroll control frameworks as these areas were provided with limited assurance over the design of controls.

- b. Based on sample testing, risk management, control and governance arrangements were operating effectively to provide reasonable but not absolute assurance that the related risk management, control and governance objectives were achieved subject to management addressing the recommendations raised during the year in a timely manner. The operational effectiveness opinion was made with the exception of the audit of Payroll and as limited assurance was provided over the operating effectiveness of controls due to the nature and significance of the findings. The report on the Board Assurance Framework would provide further assurance that would be needed for the Audit Committee Annual Report.

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

Mr J Lanes left the meeting.

SECTION D – CLOSING ITEMS:

23/27 Any other business (Agenda item 7)

Mr Lanes offered to be involved in any handover meeting with the new internal auditors (Action 33 – Internal auditors). There was no other business.

23/28 Date of next meeting (Agenda item 8)

Monday, 18th September 2023 at 4.00 pm.