

Minutes of the meeting of the Audit Committee held on Tuesday 30th April 2024 at 17:00

MEMBERS Neil McDonald, Chair
PRESENT: Theresa Hodgkinson

ALSO IN ATTENDANCE: Jon Fearon, Finance Director
Andrew Cropley, Principal and Chief Executive Officer
Roopa Harji-Patel, Validera
Lee Glover, Validera
Catherine Walker, Executive PA (until 17:15)
Eloise Hopkinson, Clerk to the Corporation

	ACTION by whom	DATE by when
<p>1 <u>WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE</u> Apologies were received from Alison Griffiths. Mazars did not have any items on the agenda and so a representative was not in attendance.</p>		
<p>2 <u>DECLARATIONS OF INTEREST</u> The chair reminded everyone present to declare any interests that they may have on agenda items to be discussed. Theresa Hodgkinson indicated that, as chief executive officer as Ashfield District Council, she had an interest in the college’s projects within the Ashfield district. Standing declarations were noted.</p>		
<p>3 <u>MINUTES OF THE MEETING HELD ON 6TH FEBRUARY 2024</u> The minutes were reviewed and it was agreed that they were an accurate record of discussions. AGREED: to approve the minutes of the meeting held on 6th February 2024. There were no matters arising.</p>		
<p>4 <u>ACTION PROGRESS REPORT</u> The committee members were happy to note the content of the update provided.</p>		

Signed: _____  _____ Chair

Date: 01/07/2024

In respect of action 9, the finance director provided an update to the committee, confirming that the audit plan was revised to take account of what was agreed.

The chair asked for updates against actions be provided to the clerk and added to the action progress report prior to meetings, in future, rather than having to be shared during the meeting.

5 **COMPOSITE COLLEGE RECOMMENDATIONS REPORT**

The executive PA presented an update against the recommendations, informing the committee of the following:

- Since the last meeting, two internal audits have been completed – student records (AEB) and budgetary control.
- There are two medium and three low actions outstanding from these audits.
- Two of the actions have deadlines which extend into the autumn term of next academic year.

The chair raised a challenge in respect of the audit completion dates. Although two audits have now been completed, with another five expected to complete in or before June, the curriculum planning audit is not planned to be completed until July. He indicated that this means it will miss that month's Audit Committee meeting, and so the committee will need to meet in September. The executive PA advised that this completion date was requested by the vice principal: curriculum and quality as she wanted to have been able to complete a full curriculum round so that the work audited was entirely her own rather than her predecessor's.

Whilst being understanding of the reasons behind this request, the chair expressed disappointment that this year's audits would not all be completed in-year, something which was achieved last year. He asked that, in future, audits are planned to complete in-year so that discussions and actions do not need to run into the following academic year. The principal will speak to the vice principal and explore whether anything can be done to enable the curriculum planning audit to complete before the July meeting, whilst still ensuring the audit is meaningful. He will liaise with the internal auditors following this discussion and will then circulate possibilities to the committee.

The internal auditors indicated that a bit of time is lost by trying to fit everything in in-year, due to the external audits having to take place first, but they will work with the college and do anything possible to accommodate this request.

AGREED: to note the content of the update provided.

6 **RISK REPORT**

Principal /
CEO

May
2024

Signed: _____  _____ Chair

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The clerk to the corporation presented the report, and key matters highlighted were:

- There are still four risks outstanding – these will be updated as soon as possible, and the updated document will be shared with the committee at that point.
- Two of the overdue risks are RAG-rated green – these are Cap1 (Inability to spend grant money by deadlines results in clawback) and Cap2 (Inadequate justification of spend results in clawback).
- One risk has been downgraded to amber: F3 – The National Minimum Wage increase in April 2024 is now confirmed as £11.44. This has been possible because the 2023/24 pay increase has been achieved and built into the accounts.
- Two new risks have been added:
 - F9 – Capital purchase of the old brewery site creates a potential risk of breaching the banking covenant requiring a minimum £2m cash holding (amber – residual score of 8).
 - Sub5 – Qualitrain: below budget (amber – residual score of 6).
- One risk has been removed:
 - Sub1 – The college needs to gain a new audit certificate to continue to subcontract from August 2023. This risk was no longer relevant as the audit certificate is now in place.
- The red risks remain largely as they were at the previous update, with the exception of the now-amber F3. Risk F2 is overdue for review but it is unlikely that there will be a significant change to this risk or its mitigation and controls at present.
- The other two risks currently overdue for review are amber. The clerk reiterated that the committee will receive an update on the outstanding updates as soon as possible.

Following a query from a governor in relation to the mitigation behind the removal of risk Sub1, the finance director provided further clarity. He explained that the audit certificate was a requirement set by the ESFA in order for the college to subcontract. There was a delay in receiving a response from the ESFA, and the risk was that it may have been refused. However, this has now been received and so the risk is no longer active.

The chair raised a challenge in respect of the deterioration in a number of areas risk – e.g. Cap8 and S5 – where the risk simply does not appear to be reducing. He questioned whether the college is in danger of undoing the excellent work and progress made. The finance director advised that these risks indicate the willingness to be realistic and open: it was acknowledged that these risks are not reducing and have slightly increased. However, the college is aiming to bring them down and he hopes that the cashflow might reflect this in time. For now, these risks

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will remain high to reflect their significance and focus the college's – and governors' – attention and scrutiny.

The principal expanded on this and stated that the college is being more ambitious now and the agenda is one of development rather than recovery. The senior team is juggling a number of priority matters, and the government is being very demanding in terms of what is required, as seen by the increase in apprenticeship monitoring thresholds. The college is carrying more risk and, although governors do not need to worry about this, they do need to be aware that there are challenges. He indicated that the risk register presents a realistic representation of risks having become more high-profile than they were previously, and this is because the college is monitoring them more closely.

An example given by the finance director was that one of the capital risks relates to variation, and the college has just been through an exercise with its contractor to negotiate and agree costs caused by the delay to the Chesterfield Road construction project. This cost has proven to be minimal at the moment, but the risk was that a contractor would often wish to secure a quite significant margin in such situations. Any construction project may well yet hit some further unexpected expenses, and so this is why the risk has increased. However, the finance director gave assurance that the college has really strong management in place and has performed well under the circumstances, but it must be recognised that the risk remains.

One governor raised a question as to where the full risk register goes and where previous versions of risks and mitigation for amendment or removal can be found. It was explained that deletions and amendments all sit under the appropriate tab within the Excel workbook, and each of the other tabs shows the committee with oversight of the risks therein. The clerk will organise a separate conversation with this governor to provide assurance and enable an opportunity for feedback and suggestions for further improvement. The principal indicated that there is a balance between ensuring the document is useful and ensuring that it is also manageable.

Clerk

May
2024

One governor provided positive feedback in relation to the urgent action taken surrounding the brewery purchase and how inclusively this was handled to ensure governors' views. She commented particularly on the quick turnaround and production of the business case and the approach to enabling decisions and thoughts to be shared.

AGREED: to note the content of the update provided.

7 **CASHFLOW PLANNING RISKS**

The finance director presented the report focusing on the purchase of the brewery. His rationale for bringing this to the Audit Committee was

Signed: _____  _____ Chair

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that the cashflow position is now a significant risk for the organisation. He wanted to bring to the committee's attention the work completed and the considerations in terms of taking this risk on board; to confirm that it has been added to the risk register; and to confirm that this risk will be managed and possibly, in time, broken down into smaller risks.

The finance director informed the committee of the following key points:

- At the moment, the college has £8m in the bank, but there is a period of time over which this will diminish.
- He has used quite a severe expenditure profile and does not think that cash will be spent that quickly, but he and the team will continue to test this and ensure that it is known well in advance whether there will be a technical breach of covenant.
- There are two different types of covenant breach, each with different outcomes:
 - The college could technically breach the covenant in one month but then quickly come back out. This would result in a letter from the bank but no further action.
 - The college could breach the covenant and be unable to come back out of the breach. This is where action would be taken by the bank, probably in the form of the bank exercising its right to seek recovery of the money.

At no point in the forecast has the second scenario emerged as a possibility.

The chair requested an update in respect of the discussion with the bank to reduce the covenant to £1.7m. The finance director confirmed that conversation took place. Before making a decision, the bank wants the college to provide the next CFFR, which will be produced in June and submitted to the bank as quickly as possible. The finance director assured the committee that there is no risk of a failure before then. The finance director also informed the committee that, if the bank will not accept the full reduction, he does have a fallback suggestion. Twice a year, the covenant reduces to £1m, and the second suggestion is for this to instead be averaged out across the year to £1.8m.

Governors agreed that it is very important for this to be on the risk register, and they asked for reassurance that any sub-risks will include the delivery of the project itself and consideration of the knock-on effects which this could have on any other risks.

The chair requested an update in terms of risk planning: e.g. what it would mean if dilapidations were found to be worse than expected; if the projected growth did not come to fruition; or if there were to be any financial squeeze in the future. The finance director assured the committee that these discussions will take place within the options analysis when the next full financial forecast is carried out. There will be a reassessment in October 2024 to ensure the growth has been achieved

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and assumptions have been met so that the numbers and the risk can be revised if necessary. Furthermore, the college has an outline costing of improvements needed within the building and, again, if mitigation is required and this goes outside of the plan, revisions will be made accordingly. The project will be reassessed at multiple points.

The chair thanked the finance director for bringing this to the committee. He acknowledged that, whilst this is one of the most important possibilities for growth for the college, it is also one of the highest possibilities for risk, and it is important for governors to have full oversight of it to enable them to provide support.

AGREED: to note the content of the update provided.

8 COLLEGE FINANCIAL HANDBOOK UPDATE AND UPDATED FINANCIAL REGULATIONS

The finance director presented the updated Financial Regulations following the release of the College Financial Handbook, which have both also been reviewed by the Finance and Estates Committee.

Going forward, as the college's Financial Regulations reference the handbook itself rather than text simply having been copied directly from it, they will always now be automatically amended in line with general changes to the handbook.

Key changes introduced by the newly published handbook include the following:

- The ESFA can now bring controls and change the rules of operating.
- Procurement limits changed in January 2024 to fall in line with the new Procurement Act, but they still largely align with Europe.
- The roles of finance director, principal/chief executive officer, and governance professional are now defined within the handbook, and the ESFA now has more control in the event that they consider an individual to not be fit and proper to hold any of these roles. The Charity Commission's 'reasonable person' guidelines are being used at present, but the ESFA may develop this further in future.

The ESFA had previously issued a number of guidance documents lined to Managing Public Money, and these had already been built into the college's Financial Regulations, so the actual changes to the college's document are nominal and were largely a tidying exercise. The finance director also reminded governors that the college had already adopted the key governance codes such as the Code of Good Governance and the Senior Postholder Remuneration Code.

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Governors agreed that the amended regulations make a lot of sense and were happy to approve this new version to the Corporation Board.

AGREED:

- to note the content of this update
- to recommend the updated Financial Regulations to the Corporation Board for approval.

9 FRAUD, IRREGULARITY AND WHISTLEBLOWING

The finance director and clerk confirmed that there were no fraud or irregularity disclosures to report.

AGREED: to note the content of the update provided.

10 INTERNAL AUDIT REPORTS/UPDATES

The internal auditor presented the progress report, highlighting the following key matters from each of the audit reports:

Progress report

- This document confirms the points made earlier within the meeting, and it was acknowledged that the chair's comments will be taken on board.
- The audits completed so far show positive assurance.
- Four audits are now substantially underway, and three others are due to start (if including the follow-up review).
- Performance indicators show that all the work will be completed in-year, if the principal is able to discuss the curriculum planning audit with the vice principal, as indicated earlier in the meeting.
- The auditor indicated that they have not received the completed satisfaction surveys for the two reviews completed. The finance director confirmed that he has had positive feedback from the lead auditees, and he will ask that they complete and submit their surveys.

FD

May
2024

Budgetary control

- The overall assurance opinion was 'substantial'.
- Two action points were identified, and both were accepted.
- The college is able to demonstrate good risk management.
- Governance oversight is evidenced and reporting of data is provided via the Management Accounts.
- The auditor did not find anything to suggest that value for money is not being achieved.
- The following areas of good practice were noted:
 - Procedures suitably reflected the control environment
 - Suitable segregation of duties exists
 - Budget holders are engaged when establishing budgets
 - Budgets are approved on a timely basis

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- Budget holders are challenged and accountable for their budget
- The management accounts pack is regularly prepared and reported.
- The following areas for improvement were noted:
 - Financial regulations to be updated to show version control, owner and review date (the auditor noted that these amendments have now been made).
 - Implement formal training for new budget holders, as well as refresher training for existing budget holders.

The principal indicated that the college's main concern in relation to financial controls is around agency staff costs, and he questioned whether this was looked at within this audit and, if not, whether it could be included within a future audit. The internal auditor indicated that this would usually be picked up in staff utilisation reviews. They have looked at this in the past and made recommendations around contracts but were not able to recall when. It was agreed that this can be picked up as part of planning for the next round of audits.

It was acknowledged that it can be seen from the management accounts which teams are overspending, but the finance director agreed that this would be a valuable piece of work to be picked up in a future year. A couple of areas with high agency costs have been weaker in terms of staff utilisation, and this is something which the college is trying to improve. Agency workers are remunerated at a very high level at the moment, which is a concern and a frustration.

The finance director and clerk were asked to pick up an action to ensure that agency staff costs are included in the audit plan for next year. The internal auditor indicated that he had also made a note of this request.

FD/Clerk

Sept
2024

One governor questioned whether the college uses consultants at all, i.e. on any of the projects or where external advice is required. She indicated that, if so, this would be a risk due to very high costs. The finance director confirmed that the consultants in place at the moment are 'locked in' for the projects which they are tied to. For smaller projects, the college has usually recruited an agency worker for one or two years rather than using consultants, as this tends to secure a lower day rate.

The chair raised a question around the budget holder training target date of September 2024, i.e. whether this for the model to be created or for the training to be complete. The finance director clarified that this is the date for the creation of the new manual. He explained that some of the guides planned will be in the form of brief videos showing people how to use systems, rather than the usual text guides. A lot of the training in the past has been face-to-face and hands-on, but the aim now is to provide budget holders with more of a 'help yourself' guide.

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The chair congratulated the team for the substantial assurance outcome of this audit.

Student records

- The internal auditor indicated that the version provided in the pack was the draft report, although a final version had also been provided. However, she confirmed that the two documents were the same.
- The overall assurance opinion was 'adequate', with three green and one amber action points identified, all of which were accepted.
- The auditor was able to confirm that that the controls upon which the organisation relies to manage risks material to the achievement of its objectives are suitably designed and applied.
- The Standards Committee receives regular reports and data dashboards, which include the monitoring of AEB enrolments and retention.
- Recommendations to improve upon efficiency, effectiveness, economy, equality, and environmental impact were:
 - Review attendance reports to withdraw learners in a timely manner and avoid overclaim of funding.
 - Review learners' support needs at enrolment to maximise use of learner support funds.
 - Make enquiries as to whether learners are enrolled on other funded programmes of study elsewhere to avoid potential duplication and loss of funds.
- The following areas of good practice were noted:
 - Enrolment targets have been established and monitored.
 - Enrolment documentation is regularly reviewed and updated to ensure that it satisfies the AEB evidencing requirements established by the funding body.
 - Learners who are utilising loans are assessed and evidenced and provided the necessary documentation.
 - Registers are suitably maintained to evidence attendance and participation.
 - Action is taken to re-engage learners at the earliest opportunity.
 - Achievement is suitably evidenced and accurately recorded.
- The following areas for improvement were noted:
 - One sampled student was incorrectly enrolled using programme dates for the entire academic year rather than the student's actual start and expected end dates. This learner stopped attending in October 2023 and has not been withdrawn, which will have resulted in an overclaim of funding.

Signed: _____  _____ Chair

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- Two sampled students had learning actual end dates recorded as their planned end dates, instead of the date of their last attendance.
- 25% of sampled enrolment forms were signed after the recorded start date.
- Learners who declared at the time of enrolment that they had additional learning needs were not assessed further for additional support.

Adequate assurance was acknowledged to be positive, but the chair expressed a concern that detailed learner record completion has been a weakness for the college. He questioned whether leaders foresee improvements and perhaps indicate that a clean audit would be more likely in the future. In response to this, the principal explained that he is not certain he can give firm assurance on this; however, he indicated that this audit was about adult learner records, which are in a slightly different position than 16-18 learner records. He advised that, in respect of the latter, lessons have been learned and these records are now in a very good position.

The principal went on to explain that adult education has increased greatly, and improving the administration of this has been a huge challenge. However, although not willing to promise a clean audit, he expressed certainty that there would be improvements were this audit to be repeated next year.

The finance director was equally reluctant to promise a clean audit, and he indicated that there were some frustrations where inputting errors have come to light. Data such as learner end dates is sporadically checked for errors, but this is often some time after the errors have been made. He provided assurance that the team members who made the errors have now been given training on how to use the system.

The finance director explained that the additional learner support issue is a matter of balance: the college could claim more money for this but would need to spend more money in order to provide the support. However, where adult learners need additional support, this is acknowledged and becomes the responsibility of the teacher. In full-time education, it is possible to recruit really strong experts to provide this support, but this is less likely when it comes to adult learning. Nonetheless, the college needs to have a strong response to this need. Therefore, teachers have been trained in relation to supporting additional needs, and it is now necessary to follow this up and check on the progress made. The finance director expressed the opinion that 70% of the need will be managed in this way. For the remaining 30%, it is about the practicality of providing this support.

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The internal auditor explained that a 'belt and braces' approach was taken in respect of this audit, and he advised that he would never expect to see a completely clean audit in terms of student systems. He indicated that this audit has had a positive outcome and there were just a couple of points on which to improve. He gave assurance that there will always be improvements recommended in order to drive practices forward.

The chair expressed a keenness to see the impact of electronic pads and whether these can improve the gathering of signatures within given timeframes. The principal indicated that this is certainly the ambition, but adult education is much more dispersed than 16-18 provision. It is also down to the scale of the learning engagement and, although technology is used for form completion and to gather signatures for longer courses and those which take place at main sites, it is not practical to do the same for shorter courses and those which taken place in outlying areas. These tend to have to rely on paper-based systems.

AGREED: to note the content of the update.

11 **AOB**

There were no items of additional business.

12 **DATE AND TIME OF THE NEXT MEETING**

Monday 1st July 2024 at 17:00.

It was agreed that confidential items would be noted separately. The internal auditors left the meeting at 17:50.

Meeting closed at 18:00.

Signed: _____  _____ Chair

Date: 01/07/2024