

VARNDEAN COLLEGE

MINUTES OF THE AUDIT COMMITTEE MEETING

HELD ON THURSDAY 2nd DECEMBER 2021 AT 9.00 A.M, virtual Meeting via G. Meets

Present: Richard Seager, Alan Walker, Brendan Ward
In Attendance: Elaine French (Vice-Principal Resources), Donna-Marie Janson (Principal), Louise Pennington, Scott McCready (Internal Auditor Wylie and Bisset), Cara Bushell (External Auditor Mazars)
Janice Robinson Chair of Governors – in attendance for item 5
Apologies: Paul Herridge
Welcomes: None
In the Chair: Alan Walker

It was agreed that the Matters Arising item would be taken after item 4 and 5 to cater for the External Auditor's work commitments.

The meeting was quorate.

Scott McCready (Wylie & Bisset) and Janice Robinson were welcomed to the Meeting, noting that Cara Bushell would be joining at 9.15 a.m. for item 5

1. Apologies for Absence and Welcomes

As above.

2. Declaration of Interests

None.

3. Minutes of the Meeting held on 22nd June 2021

The minutes were approved by the Committee and the Chair authorised to sign them.

ACTION: Louise Pennington

4. Annual Report of the Audit Committee 2020/2021

The Committee reviewed the content of the Report, noting the new content required to comply with the ACOP (Audit Code of Practice). Subject to the following amendments, the Report was recommended to Corporation for approval, noting that once approved the Chair of Audit Committee would be authorised to sign the Report. **ACTION: Louise Pennington**

- Page 3 of Report, item 6) Internal Assurance Service – delete paragraph 3 unnecessary and unclear and add “were” in paragraph 5 and “also” into paragraph 7
- Item 7 – paragraph 2 – clarify wording re regulatory requirements.
- Page 4 item 8 – add”progress of” before “the audit recommendations”.
- Item 9 – third line down, add “are” before “operational”.
- Item 10 – replace “issues” with “items” in first line.

- Page 5 item 14 add reference to “and reviewing and updating the financial regulations”.
- Page 6 item 15b) second paragraph, first line – replace “Governors” with “Corporation” and item 15 d) first sentence – add “normally” after “The Committee is “. Also revise typo errors in same section.
- Include some wording relating to the impact of Covid 19 on the College.

5. Annual report and Financial Statements

a) Draft Financial Statements to July 2021

b) Audit Completion Report July 2021

Cara Bushell joined the meeting at this point and presented the Audit Completion Report, and also referenced the Annual Report and Accounts. The following points were highlighted:

- Progress with completing the audit work has been in line with the audit schedule and ahead of several other Colleges.
- There are some minor points to be resolved and the Audit Partner will complete the final review shortly and the sign off and filing of the accounts should be made ahead of the end of year deadline.
- Going concern – to be signed off shortly, once the audit senior has prepared the final wording – but noting that there were no issues.
- Reference was made to the overdraft facility required last year which had created additional audit work in terms of evidence requested from the bank. This year no overdraft facility has been needed.
- Page 66 of the meeting papers – significant risks recorded, areas of management judgement and conclusions, were noted including the first two risks listed which are considered by the auditors as being particularly important in respect of fraud – income recognition and management over-rider of controls.
- Risk relating to income recognition – no issues to identify or report, although it was noted that additional audit testing on income this year, had been required owing to the fact that auditors were no longer able to rely upon assurance arrangements previously provided by the ESFA on their income and student records.
- Risk relating to management over-rider of controls – no issues identified during the audit work, having audited journal entries risk based approach on data analysis.
- Going concern is a significant risk for all Colleges – following audit work, there were no issues arising and Cara Bushell confirmed that she was not aware of any issues which would impact the audit opinion.
- Page 68 management areas
 - assumptions: reference was made to the annual actuarial calculation of the LGPS (local government pension scheme) liability, noting that adjustments have been made in mortality arising from Covid (£340K adjustment); Cara Bushell explained that this wasn't necessarily standard practice for all actuarial firms involved in this process, with there being a range of approaches.
 - Depreciation – element of judgement regarding rates applied. Cara Bushell highlighted 1 asset on the College's register, where no depreciation had been charged since acquisition, although it was deemed to be immaterial. The entry has been revised this year though by £22K.
- Page 70 value of assets under construction which was also raised last year - £245K balance carried forward to this year, relating to planning and associated costs. Following the audit review, £110K has been written off and shown as an impairment

as the project did not proceed. A further £40K in respect of other projects have now been completed and the associated figure will be transferred to land and buildings from assets under construction. Hence, there will be a smaller balance carried forward this year in respect of on-going projects where there also remains uncertainty as to whether these will proceed (and consequently could be recorded as impairments in future year if applicable); however, the figures included are below the auditors' materiality threshold, so auditors have agreed that it's acceptable to leave the figure in assets under construction (planning and associated costs) for this year.

- Section 3 control points: these are classified as trivial in terms of materiality and include bank reconciliation matter relating to old cheques form 2020, which usually after 6 months are written back as banks are not obliged to cash them.
- Section 4 Audit Adjustments: Refer additional depreciation point recorded above.
- Findings – as detailed above and in summary Cara Bushell advised that the report was clean and in context of the sector, reflected a good state of affairs compared to many other Colleges.

Thanks were recorded by Cara Bushell to Elaine French and the Finance Team.

QUESTIONS FROM THE COMMITTEE:

- Page 67 going concern – in response to question, Cara Bushell confirmed that there would be an update in the wording within the “going concern” section to reflect the latest position, compared to the version included in the meeting papers. In summary, she confirmed Mazars' assessment of the College's going concern had been completed and written up, having reviewed all the latest financial forecasts and management accounts, and is awaiting final sign off by the audit partner.
- Page 68 actuarial review – the Committee questioned the risk to the College and sought a greater understanding of the actuarial assessments made. In response, Cara Bushell advised that in terms of risk this could be interpreted as “low” risk and reported that the LGPS valuation has historically varied year on year following annual re-assessment by actuaries but that the risk to the College around pensions relating to the affordability of contributions owed to the scheme. She indicated that the auditors would be more concerned regarding the employer contributions in relating to the College's cash flow and that in effect the risk was nominal when assessing the latest financial statements. Elaine French offered to circulate the detailed actuarial report to those interested in reading the detail. She also added that at the last pension valuation (triennial review), the pension was calculated to be virtually 100% funded.
- Page 69 the value of assets and materiality as recorded earlier in the meeting – Governors sought further explanation regarding the definition of materiality and in response, it was noted that Mazars initially set an overall materiality starting point based on % of income, but that this may be varied depending upon a number of factors. However, with respect to the overall financial statements, materiality was calculated to be 2% of income, notwithstanding that there could be scenarios where smaller amounts, below the materiality base level, could be stated as material and included in the financial statements. Furthermore, Cara Bushell explained that for audit work a performance materiality is calculated at approximately 80% of the 2% of income referred to above.
- Page 72 – it was questioned why there was no management response and Elaine French advised that a response had been included in the final draft version.

- Page 88 Russell Martin Football Academy – Elaine French confirmed that the College did not subsidise the Academy but did pay for services in respect of Students relating to coaching fees.
- Page 67 – Cara Bushell offered further clarification regarding the headline risks, noting that these related to the required auditing standards classification of significant risks which would include going concern, income recognition, management override of controls, fraud etc, but that the individual risks could vary depending upon the College and that with regard to Varndean College, going concern had been highlighted as a risk last year owing to the overdraft facility and that it was retained for this year's financial statements' audit as a precaution.
- Page 58 the Committee sought an explanation regarding the reference to actuarial loss - £900K this year and last year recorded as £100K. Cara Bushell gave a brief summary of some of the key elements which feed into the actuarial calculation, noting that it was a very complicated process. It was noted that as reported earlier, year on year, the actuarial figure may vary significantly owing to a number of complex actuarial calculations including experience adjustment. In conclusion, she gave assurance that this was a sector wide issue and that this was not an issue where the auditors had concerns.
- Page 51 – Governors questioned the reference to UK and Non-EU income on tuition and the Principal confirmed that last year EU Students were not charged, hence the nil entry (this year charges will be applied to EU Students).
- Current ratio – reference to 0.52 which is below the required 1.0 minimum. From a solvency point of view, Cara Bushell explained that account should be taken of the current creditors line in the statements and specifically the element of deferred income and creditors paid over course of the following year, hence the auditors' concern was focused upon cash flow and its forecasting. Ideally, the current ratio should be higher, but having assessed this in conjunction with other factors including cash and liabilities, with no need for bank facilities this year, the auditors were comfortable with this. Elaine French added that current ratio was one of the College's key financial indicators and going forward with reference to the new financial stability plan (on next Corporation agenda), the aim will be to improve the College's current ratio, with supporting data and commentary to demonstrate how this will be achieved. Furthermore, she highlighted the guaranteed ESFA income of approximately £9M which had been confirmed for the following year, hence the College would be able to meet its liabilities and in summary, explained the difficulties of the ESFA funding allocation and payment schedule, together with reporting requirements. The Committee was also reassured by Cara Bushell's comments regarding the audit of the College's going concern, with a clean audit being the outcome of this year's process, making the current ratio of less significance and concern in this instance.
- The Committee were informed that the Finance Committee had reviewed the Annual Report and Financial Statements last week, with regard to their obligations and that subject to seeing the final version and taking account of the various points and changes raised, they had recommended the document to Corporation for approval.
- The Chair asked Cara Bushell whether she had anything to raise in the absence of management and she confirmed that there was nothing to add to what had already been stated, and she reiterated her thanks to the Finance Team for their help during the audit process.
- In response to a point raised by the Committee, it was agreed to include a standing item annually at this meeting to seek the views on governance aspects from the auditors. **ACTION: Louise Pennington**

The Audit Committee approved the audit processes involved in the Annual Report and Financial Statements and recommended this to Corporation, but noted that this was subject to the points/changes included above and that the final draft version would be circulated to all Committee Members prior to Corporation meeting, so that any further issues/problems, could be identified/reported/discussed as necessary before Corporation approval on Wednesday 8th December 2021. **ACTION: Cara Bushell/Elaine French**

c) Regularity Audit Self-Assessment Questionnaire July 2021 – which supports the Regularity Audit Statement) and C19 Annex

d) Letters of Representation (supports Financial Statements and Regularity Audit July 2021)

The Audit Committee recommended items c) and d) to Corporation for approval. **ACTION: Elaine French**

At this point Cara Bushell was thanked for her input and report after which she left the meeting. Janice Robinson, Chair of Governors, left the meeting at this point too.

6. Matters Arising

a) Action Points – Progress Report

The contents of the Report were noted including all the actions completed since the last Meeting. The following additional points were recorded:

- GDPR – work due in April 2022 internal audit.
- Internal Audit Reports – refer to Internal Audit Assurance Strategy and Plan item below.
- IT Security Policy – deferred, re Internal Audit work in April 2022.
- Critical Incident Plan – postponed owing to the pandemic and due to be updated in Spring Term following critical incident testing involving SLT, which will inform the revised Plan.
- ACOP – changes included in Committee terms of reference – refer below.

ACTIONS: Elaine French/Louise Pennington

b) Rolling Action Plan

Elaine French presented the updated plan to the Committee and reference the points already discussed above eg IT Security Policy. Since the last Internal Audit review in June, Wylie and Bisset will include in their work a review of the Student numbers funding audit in the Summer Term 2022, to check on progress etc.

7. Risk Management

It was agreed to take item 8 before Item 7 – refer minutes below.

- a) **Draft Minutes from Risk Management Group Meeting 23rd November 2021**
- b) **Annual Report**
- c) **Assurance Map**
- d) **Risk Register 2021-22 (merged with risk Management action plan in 2020/2021 academic year).**

In the absence of Paul Herridge, Chair of the Risk Management Group, Elaine French presented the various items and highlighted the key points discussed as recorded in the RMG draft minutes – circulated by e mail to Audit Committee members, after the meeting papers had already been dispatched.

- The various actions have been addressed following the Risk Management Group meetings and are reflected in the Risk Register and Risk Assurance Map.
- The various risk documents have also been included in the Corporation meeting papers.
- The Committee discussed the 4 significant risks and those which had been removed or merged as per the RMG recommendations and Elaine French advised that the risk relating to “uncertainty regarding Government policy”, was thought to be too general as a significant risk. She assured Governors that the RMG had discussed the risk changes in some detail and recognised that any risks removed, had been incorporated elsewhere in the register.
- A summary of the proposals regarding the production of the new risk matrix, including the replacement of risk score numbers with words, was provided to the Committee, as referred to in the RMG minutes, along with the various other planned actions.
- In response to a question from the Committee, Elaine French confirmed that the revised Risk Register and Assurance Map had been circulated to the FEC team, noting also that the Map had been colour coded to aid understanding.

The Committee recommended the various Risk documents to Corporation for approval. The Committee also endorsed the RMG draft Minutes noting that following the decision to disband the RMG, the November 2021 meeting, was to be its last meeting. **ACTION: Elaine French**

8. Internal Assurance Matters

a) Assurance Strategy and Plan 2021-2022

Scott McCready (Wylie & Bisset) presented the Assurance Strategy and Plan for 2021/2022, together with the first Internal Audit Report on Student Records and recorded the following.

- Reference was made to Graham Gillespie’s presentation at the last meeting.
- Elaine French and Scott McCready have met to discuss the plan details and agreed to proceed with the plan assurance areas identified.
- Page 130 of the papers – highlighted plans and audit areas in year 1 and year 2.
- Staff wellbeing internal audit was completed in November, with the IT internal audit review getting underway this week. Both reports will be presented at the March 2022 Audit Committee. Finance and Controls and GDPR audit reports will be presented to the June 2022 Audit Committee.

- Staff wellbeing audit (re Staff morale risk) looked at the processes and support offered to Staff throughout the pandemic and also looked at the methods which the College used to keep Staff motivated and engaged; a questionnaire was issued to Staff to gather information and feedback. The auditors also benchmarked the College's responses compared to other clients.
- Number of audit days – 18 for 2021/2022 and 12 for 2022/2023 – noting that the difference relates to fact that some of the days for year 1, were moved into year 2 and the normal number of days per year has been agreed at 12, with additional day rate set as needed.
- Governors were reminded that the original internal audit needs assessment was 6 months ago owing to the timing of the internal audit appointment, but that in future this would be an annual process.

The Committee agreed the Plan and recommended it to Corporation for approval, noting that this would be kept under review, initially by Elaine French and the Internal Auditors in order to ensure that all the relevant risks are covered in years 2 and 3; any revisions to the proposals will be brought back to the Committee to agree. **ACTION: Elaine French**

In response to a question from the Committee, Scott McCready confirmed that he had received all the information and support from the Finance Team and other Staff involved in the audit work – HR (staff wellbeing) and IT and didn't need to raise any issues with the Committee, in the absence of management.

b) IA Student Records Completion Report

The contents of the first Internal Audit Report completed by Wylie & Bisset and presented by Scott McCready, were noted by the Committee:

- Report is graded substantial, strong assurance, weak, no assurance and controls are reviewed to see if they are in place.
- The usual key headings in the report are front cover showing the conclusion, objectives/purpose of the review, background section regarding the arrangements in place for the area under review, information provided against the work undertaken re the objectives, conclusions and justifications for the recommendations, together with a final good practice section; the auditor provides a benchmarking section based on the audit work completed for the clients from the education sector.
- The overall grading is assessed once any recommendations have been identified.
- Purpose – to look at the ILR data and to check the accuracy with regard to funding and this includes ILR submissions, procedures, systems, records etc, including 16-18 students and adult education learners; software was used to verify some of the information/analysis.
- Substantial level of assurance has been achieved, being the second highest grade, with 2 recommendations for improvement – 1 medium and 1 low.
- Overall the auditors were satisfied with the 16-19 controls but improvements were identified in respect of the IB learner files. 15 good practice points were highlighted too. Reference was also made to comparisons with the benchmarking section and the College's average was 2, compared to the sector average of 0.
- Page 11 – first recommendation relating to IB learners, to ensure compliance with provision of information, specifically the personal statement and to check that the College's process and records are in compliance with the ESFA guidance. The recommendation was only graded medium as this relates to £150K of IB income and

it was noted that the College was looking to complete the review of learner files by the end of August.

- The second recommendation relates to the documentation of College's procedures in 1 document – deadline Summer 2022.

QUESTIONS:

- Page 136 The Committee queried the fact that internal procedural documents were not in place for some procedures as per the second recommendation above, and it was reported that although some procedures had not been recorded in a policy document, all staff were well aware of the processes involved and applied these effectively in their work.
- It was noted that there were no specific issues with regard to funding and that the External Auditors had carried out audit work in respect of funding.
- The Committee queried the sample size and Scott McCready confirmed that it was a random sample of 40 (10 of which were Adult Education Learners and 30 16-19 Students).

At this point thanks were recorded to Scott McCready after which he left the meeting.

The document was recommended to Corporation. **ACTION: Elaine French**

9. Policies and Other Documents

It was noted that the Risk Management Policy and the Information Security Policy would be deferred until the March 2022 meeting, to tie in with the outcomes from the internal audit work scheduled.

11. Date of Next Meeting – 15th March 2022 at 9.00 a.m.

12. Any Other Business

The revisions to the committee's terms of reference were noted and recommended to Corporation for approval, noting that these had been brought into line with the latest ACOP.
ACTION: Louise Pennington

The Committee discussed the new requirement for Committee training needs and assessment/control of this, noting that the Search and Governance reviewed Governor training needs annually (via individual Governor self-assessment survey and Chair/Governor 1:1s. The Committee also has an opportunity annually to identify any Committee training needs. There are also regular governor training options available from external providers which are shared with Governors, together with any compulsory training (eg safeguarding).

Chair.....Date.....

