

VARNDEAN COLLEGE
MINUTES OF THE AUDIT COMMITTEE MEETING
HELD ON TUESDAY 26TH NOVEMBER 2019 AT 9.00 A.M

Present: Peter Baker, Ayas Fallon-Khan, Paul Herridge, Richard Seager,
Alan Walker

In Attendance: Elaine French, Louise Pennington and Cara Bushell (Mazars, External
Auditors)

(Cara Bushell, Mazars - in attendance until the end of Item 6).

Apologies: Cathy Mc Donnell and Philip Harland

Welcomes: Ayas Fallon-Khan, Paul Herridge and Alan Walker

In the Chair: Ayas Fallon-Khan

1. Apologies for Absence and Welcomes

As above.

2. Declaration of Interests

None.

3. Minutes of the Meeting held on 24th June 2019

The minutes were approved by the Committee and signed by the Chair.

4. Matters Arising

a) Action Points- progress report

The actions completed were noted and the following additional comments made:

- GDPR matters – to discuss under item 8 below - Assurance Strategy and Plan.
- Risk Management issues taken forward by Risk Group.
- GDPR policies – on-going work, so keep under review and refer item 8 below.
- Corporation Assurance Map – actioned, plus further work to be completed on residual risk for next meeting.
- Risk Management- gross to net review – replaced by Assurance Map.
- Construction risks – monitoring confirmed
- Russell Martin Academy – refer AoB
- Internal Assurance – Refer item 8 below.
- Assurance Strategy – Refer item 8 below.
- Anti- fraud policy – revise at next review.
- Value for money – to be taken into account when reviewing financial regulations at next Finance Working Group (FWG) in January 2020. At this point Elaine French

advised that following the recent announcement that the ESFA would be revising its requirements and deadlines for the finance record/plan from annually in July to January (with February 2020 deadline), it's likely that the date for the FWG may need to be revised, along with the Spring Term Corporation meeting. **ACTION: Elaine French**

- Self-Assessment/Meeting Review – various actions to be taken forward for future meetings by Elaine French as appropriate.

At this point following a query from Governors, Elaine French updated the Committee on the Information Security Policy – she explained that following an initial draft prepared by the IT Manager, SLT needs to complete further work on developing this to ensure the document covers all aspects. She confirmed that the policy will be presented to Audit Committee in March 2020. **ACTION: Elaine French**

b) Rolling Action Plan

The contents of the Plan were noted by the Committee and Elaine French drew Governors' attention to the following:

- Page 15 – no action points from the External Audit.
- Regarding Internal Audit actions, the details will be included in the follow up report in respect of latest Internal Audit review.
- Items 4 and 5 – completed. Regarding item 5, the College has recruited an interim MIS Manager, following the resignation of the previous MIS Manager. The interim Manager is working very well and has been contracted to be at College until Christmas. It was noted that it was quite difficult to recruit experienced MIS Managers and many of those with this experience have become consultants.
- Item 6 update – The HR Manager, Emma Rich, attends SLT meetings to give a staffing update and deal with any staffing issues and queries.

c) Risk Management Action Plan

The contents of the Action Plan introduced by Elaine French and which had been updated since the Risk Group meeting in October 2019, were noted by the Committee and the following additional questions and points were recorded:

- a) Risk MA1 critical incident plan – in response to a question from the Committee it was confirmed that the Plan was not due for formal review until June 2020, but that a SLT scenario exercise had been planned and deferred following Philip Harland's absence; the SLT scenario testing will now be arranged for the Spring Term 2020. Furthermore the College is waiting for the security advice from the Department of Education which has been delayed too (due in September 2019) which will need to be taken into account. Elaine French confirmed that she had circulated the latest Crisis Response Plan to Paul Herridge, the Risk Group Chair for information, as requested at the last Risk Group meeting.
- b) Risk MA12 – The Committee asked for an update on the Planning appeal process and Elaine French advised that the deadline for comments to be submitted to the Planning Department regarding the appeal was last Thursday. The College's Planning consultant is currently reviewing the various responses to identify responses which the College ought to review and comment upon. Once the College has reviewed and fed back comments to the Planning Consultant, he will prepare a

formal submission on behalf of the College. The majority of submissions have been from members of Green Varndean. The Committee discussed the impact of the planning on the College's reputation and noted to date that Student numbers had not been affected and in fact had increased.

- c) Risk F2 Student Numbers – The Committee queried the maximum number of Students which the College stated it could accommodate, being 1,710, whilst currently enrolments are at 1,801 and Elaine French explained that the College had managed to adjust its timetable to accommodate all Students enrolled but that after Easter, the College would be able to utilise the new STEM centre which would relieve the pressure and provide some flexibility. She also explained that the STEM building completion date was now 20th March (previously 28th February) owing to delay caused by bad weather but allowance had been made in the programme to provide for unexpected delays.

5. Annual Report of the Audit Committee

The Committee noted the contents of the report and recommended the Report to Corporation noting that it would be presented to Corporation before the Annual Report and Financial Statements, subject to the following revisions:

- a) Paragraph 8 Rolling Action Plan reference – add details of other assurance planning and internal audit work and reporting.
- b) Item 14 – reference is made to the attached Committee terms of reference and this has been included at the end of the meeting papers' pack.
- c) Page 24 referring to the wording on “securing economy, efficiency and effectiveness” – it was resolved that the wording should be revised (by Elaine French and to be agreed with Chair and Richard Seager) to include more detail re value for money, bearing in mind that currently the implication is that the Committee is providing assurance for the whole College value for money aspects which isn't the case.

ACTION: Elaine French

6. Annual Report and Financial Statements/Audit Findings Report

The papers were introduced by Cara Bushell (Mazars, External Auditors), the external auditor and the following points recorded:

a) Draft Financial Statements July 2019

- i) Prior to the final report being ready for Corporation approval, Cara Bushell confirmed that adjustments would be made to the disclosures. **ACTION: Cara Bushell/Elaine French**
- ii) Brexit – a section has been included in the audit report to describe potential impact upon the FE sector, with a cross reference to the narrative in the main report which sets out the Brexit assessment. It was noted that Elaine French was working on the final wording to be included in the Annual Report and Financial Statements which would be co-ordinated with the auditors' commentary and also noting that the College would continue to monitor Brexit negotiations and progress. **ACTION: Elaine French**
- iii) Elaine French agreed to circulate the final version of the Annual Report and Financial Statements to Committee members once the disclosure details and other amendments had been completed so that the Committee can review the final version

prior to Corporation, with a note summarising the changes made since the Meeting.

ACTION: Elaine French

- iv) Key management changes in the disclosure notes were highlighted.
- v) Page 59 note 7 disclosure – the Committee Members were informed that Colleges have to report the Principal's salary in various ways, including as a multiple of the median of all staff salaries and taking into account total remuneration (pension and employer pension contributions). The latter is a new disclosure this year – Cara Bushell explained that Varndean College would compare favourably within the SFC (and FE) sector.
- vi) Cara Bushell highlighted the deficit for the year which was common amongst Colleges and largely reflected the increased liabilities and associated provisions required regarding LGPS (Local Government Pension Scheme) pension adjustments (refer page 48) difficulties encountered by Colleges this year in term. Following a request from the Committee, Cara Bushell agreed to include a note in the Audit Findings Report explaining the deficit, depreciation and pension fund issues and that this should not be considered as a significant risk/issue for Varndean College, to reinforce the position and ensure that everyone is clear about the circumstances.

ACTION: Cara Bushell

- vii) Notwithstanding the issues highlighted above, page 51 demonstrates that the cash flow remains satisfactory.
- viii) The Committee discussed the future potential liabilities of the LGPS and future affordability.
- ix) Elaine French reminded Governors of the focus on College's maintaining a healthy EBITDA (earnings before interest, taxes, depreciation, and amortization) rather than operating surplus and that the Finance Working Group will be asked at its next meeting to review the College's financial objectives accordingly. **ACTION: Elaine French.** However in the context of last year's report and financial statements to 31st July 2019, one of the stated financial objectives is for the College to achieve an operating surplus which the College has not done for the year to 31st July 2019.

The Committee recorded that the final version of the Annual Report and financial statements would be approved by Corporation. **ACTION: Elaine French**

b) Audit Completion Report July 2019

Cara Bushell presented the External Auditors' report to the Committee and highlighted the following points:

- Audit visit work was completed in October 2019 and amendments to the draft statements were as reported earlier under a) including various post-balance sheet updates.
- Mazars will issue an unqualified clean audit report and thanks were recorded to Elaine French and the Finance Team for their assistance with the external audit work. Mazars also confirmed a clean regularity audit.
- Thanks were also recorded to Mazars for their work.
- Page 76 – sets out the audit findings, including significant risks and conclusions.
- Income recognition – under the auditing standards Colleges are required to record details, but the majority of the College's income is allocated from the ESFA funding. Mazars have confirmed that there are no issues arising from this to be reported in the financial statements.

- Management over-ride of controls – the auditors completed their usual checks and analysis to determine whether there was any evidence for financial transactions outside the normal business procedures, examining samples of journal entries/manual adjustments etc, and no issues were identified.
- Areas of management judgement – the major issues are around assumptions regarding LGPS and Cara Bushell reported that Mazars made use of its in-house actuarial team who reviewed the assumptions made for sector College clients with the sector, including Varndean College and confirmed that they had no issues arising from these. Likewise with regard to depreciation, the auditors consider this in comparison with similar organisations/disposals and depreciation rates to reach a reasonable outcome.
- Page 78 audit issues highlighted this year with the FE sector – as already reported earlier, the main issue relates to pensions and associated areas – this year the deficit increased significantly, doubling to £1.8M owing to the underlying issue of discount rate reduction on investment bonds and subsequent assessment of future liabilities in accordance with the relevant accounting standards. The adjustments required have also taken into account the demographic changes whereby life length has been reduced by a couple of years which reduced liability by £535K. In response to a question from the Committee regarding the indications for the future, Cara Bushell reported that the LGPS pension fund in East Sussex was showing a surplus based on March 2019 valuation, which will have an impact on next year's financial statements. This year's deficit in the balance sheet was based on the March 2016 valuation.
- Cara Bushell also drew the Committee's attention to another related pension issue and referred to resolutions made at 2 recent court cases where additional liabilities were recognised (GMP and McCloud) and noted that as a result most organisations have made provision for additional liabilities. However following Mazars actuarial review of this aspect the College's maximum liability is £29K at this point so Mazars has left this as an unadjusted item in the financial statements.
- Cara Bushell explained that the pension scheme issues had generated additional work for external auditors within the sector. Outcomes from the such changes are likely to evolve over the next few years as sector actuaries complete further work on this, including the more complicated multi-employer schemes and to ensure assurance is provided regarding pension scheme information and the associated actuarial assessments.
- Page 80 – Regularity audit – no issues associated with the regularity matters were identified during the audit process.
- Page 81 – confirmation that there were no significant control weaknesses identified during the audit process.
- Page 82 – Summary of misstatements – as referred to earlier, reference is given here to GMP estimated liability, noting that the figure is below audit materiality and hence the proposal that there would not be any adjustment in the financial statements for this. No other adjustments were identified.
- Sector update – this includes details of the new FE/HE SORP (Statement of Recommended Practice) which is sector specific and will apply to the preparation of the financial statements next year, although Cara Bushell advised that the latest SORP was likely to have minimal impact on Varndean College.
- The Committee queried the recent changes to the insolvency regime/requirements and Cara Bushell confirmed that there were no issues or concerns arising which

would affect Varndean College. However she agreed to revise the Report to include some narrative about this, including the fact that Mazars had no concerns regarding this issue and the College at present. **ACTION: Cara Bushell/Elaine French**

- In response to a question from the Committee regarding the Student Union Accounts, Elaine French confirmed that the College retains the SU monies in an account on their behalf and that this was included in the balance sheet (creditor) which the auditors signed off.

c) Regularity Audit Self-Assessment Questionnaire July 2019 (supports Regularity Audit Statement)

The Committee reviewed the annual Regularity Audit SAQ, noted that this was a ESFA document completed in house covering financial and governance aspects and which the external auditors also made reference to in their regularity audit work. The following points were recorded:

- Some of the questions have been revised by the ESFA this year to include more detailed questioning following issues arising from regularity matters affecting some Colleges in the sector.
- The housekeeping issues regarding the formatting within the document was noted including the difficulty lining up responses to the various questions.
- Page 89 value for money reference (corporation should demonstrate payments are regular etc) and Elaine French explained that commentary had been included in the evidence column regarding accountability requirement, but that the formatting of the document had moved the evidence to the following page.
- In response to a question on fraud issues from the Committee, Elaine French gave a summary of the in house procedures involved regarding payments etc following guidance issued by the bank and also within the sector generally. She confirmed that the Finance team ensured that every payment following the College's processes.
- Page 92 – item on no losses or fraudulent activity recorded – following a suggestion by the Committee, Elaine French agreed to revise the word “recorded” to read “detected”. **ACTION: Elaine French**

d) Letters of Representation (supports Financial Statements and Regularity Audit July 2019)

The content of the two Letters of Representation were considered by the Committee and recommended to Corporation for approval, after which the Chair would be authorised to sign these. **ACTION: Elaine French/Chair**

At this point, the Chair invited Mazars to raise any issues regarding their work with management during the audit process in the absence of management, but Cara Bushell confirmed that there were no issues to raise. Thanks were recorded to the External Auditors for their work during the audit process and at this point Cara Bushell left the meeting.

7. Risk Management

a) Draft Minutes from Risk Management Group Meeting 15th October 2019 Part I and Part II (Confidential)

The contents of the main and confidential draft minutes were noted. The Committee queried whether there was additional funding for the College in respect of Students requiring significant levels of additional support and it was noted that the funding allocation was fixed per Student per year being £4,000 pa and that the funding had not changed since 2010. Following further questioning about the number of Students requiring significant levels of additional support and how the College was managing this, it was agreed that this should be raised at Corporation so that other SLT members could respond. **ACTION: Committee Members.**

b) Annual Report

The contents of the Report were noted and recommended to Corporation for approval.

c) Assurance Map Update

The contents of the Map were considered and account taken of any Risk Group comments. The document was recommended to Corporation for a approval, notwithstanding that the post control column details regarding residual risk was still to be completed by SLT – due by next term's Audit Committee Meeting. **ACTION: Elaine French**

d) Risk Register 2019-2020

Reference was made to the Risk Register review by the recent Risk Group meeting and the changes agreed as recorded in the Risk Group minutes and the revised register was recommended to Corporation for approval. **ACTION: Elaine French**

At this point the Committee discussed the amount of risk work completed by the College and the time allocated by Elaine French, noting that in many instances the detail provided appeared to be much more than other comparable Colleges. In conclusion it was agreed that although the Governing Body would continue to retain the Risk Group for the timebeing, the rolling action plan should rest with the Audit Committee and not be Risk Group in future. Furthermore it was resolved that with immediate effect the Risk Management Action Plan should be amalgamated with the Risk Register to avoid duplication. Additionally Elaine French agreed to review the risk work carried out by the College and if appropriate make further recommendations at the next meeting, including a review of the need for the Risk Management Annual Report. **ACTION: Elaine French**

8. Assurance Strategy and Plan 2019-2020

Referring to the last meeting when the above document had not been finalised by the internal auditors for the usual Summer Term Audit Committee agreement, Governors were reminded that the document should have been tabled at this meeting. However Elaine French advised that it had still not been finalised by the Internal Auditors and the Committee agreed to review and confirm the decisions made at the last Audit Committee meeting regarding the internal assurance Plan for this year, and that a paper would be prepared for Corporation confirming the Strategy/Plan for 2019/2020. **ACTION: Elaine French**

Elaine French confirmed that following the last meeting, she had fed back comments to the Internal Auditors regarding the College's concerns about the internal audit work and particularly timing issues which arose last year and that there had been a reduction in fees to reflect this. She also gave the Committee a summary of issues experienced this year in terms of timing and visit planning etc

The Committee reviewed the provisional plan agreed verbally at the last meeting including Learner Numbers, financial systems, GDPR advisory assurance and follow up. Elaine French proposed that the provisional plan should be reviewed in light of the number of internal assurance days allocated to the work (10 days) and taking into account that the GDPR advisory audit would need 5 days of that allocation. If the College approved the full Plan agreed at the last meeting, this would result in 16 days' audit work.

At this point Peter Baker suggested that it may be worth the College making enquiries with the ICO (Information Commissioner's Office) which may be able to offer an alternative self-assessment GDPR process.

The Committee agreed that regarding the GDPR audit, this would provide the College with assurance, additional guidance and also raise the profile amongst Staff.

The Committee reviewed the decision and based on Elaine French's advice and recommendations agreed to recommend to Corporation the following **ACTION: Elaine French:**

- Learner Numbers – important to carry out this audit annually and particularly in light of the fact that the Registry has been re-structured and the MIS Manager has left, with temporary cover at present.
- GDPR Advisory Audit
- Follow Up

The Financial systems audit (this year would be based on budgeting and forecasting) would be deferred by 1 year.

The cost per day is £500 plus VAT for internal assurance work and would be based on 12 audit days which would remain within budget.

Elaine French advised that the internal audit work would not be scheduled until March 2020 as this was Mazars earlier availability.

It was also noted that during the academic year the College would complete a tender process for its internal assurance provider, recognising the fact that Colleges will no longer be able to use the same audit firm for both External and Internal Assurance. Elaine French will invite Governors to participate on the Tender Panel in due course. **ACTION: Elaine French**

9. Policies and Other Documents

a) Risk Management Policy – approved as unchanged and recommended to Corporation for approval.

b) IT/ILT Strategy Working Document

Referring to previous minutes from Audit Committee and Risk Group, the Committee were reminded that it had been intended that owing to the delay in progressing this item, the Working Document was due to be included in this Committee's papers. However Elaine French explained that SLT needed to do some additional work on this to take forward prior to Governors' input. In response to a question from the Committee regarding timing for the completion of the work, notwithstanding the management delay owing to additional workload placed on the IT Manager (following departure of MIS Manager) and the Principal's absence

owing to ill-health, Ayas Fallon-Khan agreed to raise the matter at Corporation so that Governors' may gain some assurance regarding the final production timeframe for the document. **ACTION: Ayas Fallon-Khan/Elaine French**

It was noted that following SLT meeting tomorrow, it may be possible to circulate a draft paper for Corporation on the ILT Strategy. **ACTION: Elaine French**

10. Date of Next Meeting

Tuesday 9th March 2020 at 9.00 a.m.

11. Any Other Business

- a) Russell Martin Academy (RMA) Statement of Accounts** – the Committee noted that this was an outstanding action from previous meetings and that the intention had been to table the statement of accounts at this meeting. Elaine French explained that only a verbal update would be given owing to fact that the Finance Department will need to do further analysis work with the MIS Department to separately identify all the costs associated with the Students who have enrolled at Varndean and the Academy. In summary she explained that although it's recorded that those Students who have signed up to the Academy also do sufficient course hours at Varndean (540), being the required Full Time hours to ensure that funding is allocated to the College per Student. Although the original intention on recruitment was that the programme of study at Varndean would be based mainly on the Sport BTECs, combined with the Academy football training, over the last two years, many of the Students have been doing more hours than necessary which could result in a potential cost to the College (if for example an additional class has had to be established to cater for more Students, rather than allocating the RMA Students to existing classes where there are spaces). At the outset, the College agreed that of the £4K funding received by the College per Student, £1,600 would be allocated to the RMA to cover their costs (external coaching staff etc). However Elaine French explained that it has been difficult to monitor some aspects of the facility as for example some Students are enrolled at Varndean who haven't enrolled formally at the RMA, but joining the training and coaching facilities offered with the Academy then submitting claims for additional unregistered Students. As a result SLT has agreed with the RMA that there will be no additional funding for Students, not registered with RMA who wish to train with RMA and Students may continue to do the football coaching but at no additional cost to the College.

Currently the College has 40 Students training with the Academy, but with only 30 enrolled formally, so the College is paying the Academy £1,600 for each of the 30 Students with RMA. Therefore this results in £120K income with £48K being allocated to RMA. Should Students discontinue the RMA during the year, then funding is also no longer paid by the College to RMA. Approximately half of the Students are studying A Levels and the other half are enrolled on Sport BTEC. Governors were reminded that when the RMA arrangement was first established Corporation was given assurance that it would be cost neutral but it was reiterated that the Corporation needed to see the accounts to gain assurance that this was the case. The MIS Department has been asked to produce a more detailed analytical report reflecting costings and once this is ready it will be presented to Governors. **ACTION: Elaine French**

The Committee was also advised that the College's enrolment systems would be revised for next year to record RAW as first choice on enrolment rather than A Level/other courses in which case it will allow improved reporting from the MIS Department in future.

b) Audit Committee TOR

The amendments made last term to reference the new Anti-Fraud criteria (regarding Annex D to the Audit Code of Practice), were agreed and recommended to Corporation (also to include Annex D for information). **ACTION: Louise Pennington**

c) STEM Centre Project Status Report

Elaine French tabled the Report and the following points were made:

- No variation in overall costings to date.
- Monthly meetings with Finance Director and Construction Team/Project Manager
- 3.5 week programme delay owing to poor weather; contingency included in programme to cater for time adjustments.
- Completion – new building will be ready for the Summer Term.
- Construction cost is £2.3M and with fees, overall project cost is around £3M.
- BREEAM aspects noted.
- Finance Director is satisfied that the Project is being very well manager both by the Project Manager, with input for the College's own Estates Manager.
- Although SLT has not managed to organise video filming of the construction, numerous photographs have been taken and these will be uploaded to the website in due course. Elaine French will investigate whether a video could be arranged for the fit out works. **ACTION: Elaine French**

Chair.....

Date.....

Louise Pennington 26/11/19