

VARNDEAN COLLEGE

MINUTES OF THE AUDIT COMMITTEE MEETING

**HELD ON THURSDAY 24TH NOVEMBER 2022 AT 10.15 A.M, IN THE
PRINCIPAL'S OFFICE**

Present: Paul Herridge, John O'Sullivan, Richard Seager, Alan Walker
(Chair), Brendan Ward

In Attendance: Elaine French (Vice-Principal Resources), Donna-Marie Janson
(Principal), James Gordon (Deputy Principal), Louise
Pennington, Scott McCready, Internal Auditor Wylie and Bisset) –
for item 8, Nicola Wakefield, Mazars (External Auditor) for item 5,
Jill Arnold (Chair of Governors) for item 5 to provide additional
assurance to Governors regarding the External Audit work

Apologies: None

Welcomes: John O'Sullivan – new co-opted Committee Member

In the Chair: Alan Walker

The meeting was quorate.

The auditors joined the meeting for their respective items via G. Meets

1. Apologies for Absence and Welcomes

As above.

2. Declaration of Interests

None.

3. Minutes of the Meeting held on 21st June 2022

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

ACTION: Louise Pennington

4. Annual Report of the Audit Committee

The Committee considered the Report, which was recommended to Corporation for approval, subject to the following revisions:

- Revise wording relating to "open ended" contract with the External Auditors, Mazars. It was noted that the contract was reviewed annually, and consideration would be given to re-tendering the contract (as per the terms of reference and ACOP requirements), every 5 years.
- Add full dates for the 3 Audit Committee meetings.

Following a question from the Committee it was confirmed that the various responsibilities as set out in the Committee terms of reference, were as listed in the Annual Report.

It was confirmed that once approved by Corporation the Annual Audit Committee report would be signed by the Chair of Audit Committee.

5) Annual Report and Financial Statements

a) Draft Financial Statements July 2022

b) Audit Completion Report July 2022

The Committee was reminded that as was the case last year, it had been agreed that the Chair of Governors, would attend the Audit Committee Meeting in the Autumn Term for this item, and report back to Corporation at its December meeting, in order to provide additional assurance to Governors in line with the new guidance.

At this point Nicola Wakefield joined the meeting via G. Meets and presented the papers in a) and b). The following points were recorded:

- Elaine French reported that the version of the Annual Report and Financial Statements had been updated further to take account typographical errors etc and to ensure the statements were accurate and up to date, the details of which had been agreed with the auditors
- Attention was drawn to the Executive Summary and noting that the audit process was ahead compared to previous years and thanks were recorded to the Finance Team for this.
- There remain some final details to resolve, namely in respect of the Local Government Pension Scheme (LGPS) assumptions and Nicola Wakefield advised that this should not raise any concerns.
- No significant issues were identified in respect of the key judgement areas as detailed in the Audit Findings Report
- Regarding the pension scheme assumptions, the auditors are awaiting the final report from the LGPS actuaries, noting that different LGPSs had different actuaries which meant that there were likely to be some differences between different areas' LGPS schemes. The auditor confirmed that comparisons were made with other LGPS areas. In respect of Varndean College's first draft accounts, a £502k asset was on the balance sheet in respect of the LGPS however, in line with the rules, as it shouldn't be recognised as an asset, it has been taken down to a nil position so that there is no net liability/asset in the accounts in respect of the pension. Nicola Wakefield reported that she liaised directly with the LGPS actuaries regarding the final figures to be included in the accounts.
- Depreciation – no issues of concern to raise.
- In response to a question from the Committee, it was confirmed that the role of the Audit Committee was to review and endorse the audit process and that the Finance Committee reviewed and recommended the Financial Statements to Corporation for approval.
- The new Committee Member, John O'Sullivan, sought clarification and reassurance from Nicola Wakefield regarding the treatment of pensions in the financial statements within the FE sector, compared to other organisations (eg NHS) particularly with reference to note 17. Nicola Wakefield explained the pensions' treatment within the sector, noting that all colleges and academies were required to follow similar disclosures with the pension figures being provided by actuaries. At this point it was agreed that the draft Finance Committee minutes should be shared with the Audit Committee members to provide some context regarding the discussions and decision

made in respect of the Finance Statements, also noting that Governors would be present for the Finance Committee business at Corporation should they have further questions to raise or points to clarify. **ACTION: Louise Pennington**

- Nicola Wakefield reported on the various points discussed with management, namely:
 - capital projects (balance carried in assets mid-construction, where £75K appeared to relate to the previous accommodation master plan and that going forward the auditors may recommend that this is written back in the next year's accounts). At this point the Committee queried the decision not to restate in the balance sheet for the £75K write off and Elaine French reported that the new master plan had not in fact been agreed until the current financial year, so the view had been taken not to adjust the financial statements and also noting that technically therefore the old master plan was still in place during the financial year until the new one had been approved;
 - Harper and Brazel case decision, in which the Supreme Court confirmed that workers who only work for part of the year, but on permanent contracts, are effectively entitled to the same holiday allowance as workers who work all year – this resulted in Colleges having to assess their liability arising from this and Nicola Wakefield advised that this was not material with respect to Varndean College's accounts, but noting that the HR Department at College would have to review all Staff employed on this basis and make adjustments to pay as required.
- There were no regularity audit issues identified – reference was made to the Regularity Audit Self-Assessment Questionnaire included in the papers below.
- 1 control point was raised in respect of the fixed asset register, noting that the record maintained by the College was extensive with lots of unnecessary information and therefore difficult to review and it was recommended that over time, the register should be simplified. Elaine French confirmed that the record was in the process of being updated to reflect the recommendations made by the auditors, but that this would take some time to be progressed. At this point it was noted that in the rolling action plan, included within the Matters Arising Item below, that the end date for completion was next year, and that the auditors would sign off on this at the next audit in the Autumn Term 2023. **ACTION: Elaine French**
- Adjustments/unadjusted items to the financial statements – as reported above the pension liability/asset in pension scheme and its treatment ie nil asset provision as can't be classed as an asset; assets in course of construction - balance sheet leases within creditors section, which will be phased out over the next year.
- In response to a question from the Committee regarding the summary of misstatements and Elaine French confirmed that as these were immaterial they would be unadjusted in these financial statements, but would be carried forward.
- The Committee also questioned whether the auditors had any concern regarding the current ratio, being an indicator of solvency, being less than 1, and in response the auditor advised that the auditors were content to state that the College was a “going concern”, referencing the focus upon the creditors and cash flow projections.
- The Committee also made reference to the Staff cost ratio recognising that the College had a target to reduce this to between 70% and 74%, but recognised that in light of the current financial crisis, including strikes and below inflationary pay rises, that it would not be possible, without further Government funding, to reduce staff costs below the current figure. The Principal also referred to the College's financial sustainability action plan, which had been presented to the last Finance Committee, which retained the staff cost pay ratio as a target of between 70% and 75% within 3 years, subject to the impact of ongoing financial constraints.

- The Committee queried the blank entry to be confirmed regarding the paragraph on ONS potential reclassification of FE Colleges and it was noted that should the announcement be made by the expected deadline of 30th November, details would be added to the financial version of the Annual Report and Accounts going to Corporation for approval.

At this point the Chair of Committee asked Nicola Wakefield whether there were any points which the auditors wished to raise with the Committee in the absence of the Management Team and she responded that there were none and that the Finance Team had been very helpful and timely in their audit work this year.

The following amendments were highlighted by the Committee – reference to Risk Management Group should be updated to reflect the business being absorbed by the Audit Committee with effect from October 2021 to ensure consistency throughout the document.

ACTION: Elaine French

Thanks were recorded to Nicola Wakefield and her team for their work on the External Audit.

At this point Jill Arnold left the meeting.

c) Regularity Audit Self-Assessment Questionnaire July 2022 (supports regularity audit statement)

The Committee noted the above questionnaire and the reliance placed upon the responses provided in respect of both financial and governance matters, to assist the External Auditors in their audit work. A copy of this will be included in the papers going to Corporation.

d) Letters of Representation (supports Financial Statements and Regularity Audit July 2022).

It was noted that the Letters of Representations would be included in the Corporation meeting papers for approval. **ACTION: Elaine French**

Nicola Wakefield left the meeting at this point.

6. Matters Arising

a) Action Points – as recorded in the Minutes of the previous Audit Committee Meeting on 21st June 2022.

Subject to time constraints, an actions' schedule will be included in future meeting papers to assist the Committee in tracking the actions from the minutes. **ACTION: LEP**

Following a question from the Chair, Elaine French confirmed the actions which had been completed or were on the agenda and provided the following additional updates:

- External Board Review (EBR) – the Committee was updated on the discussions and recommendations made at the recent Search and Governance Committee which confirmed that the EBR would not be commissioned during this academic year, but that the intention would be to carry this out in 2023/2024 academic year (preferably Spring Term 2024) and that the initial research and tender process would commence this year, to find a preferred EBR reviewer, noting that the average cost for such a review was in the region of £5K plus VAT, plus expenses (travel/hotel for the reviewer).

- Item 6 Internal Audit Reports – the action for the Chair of Governors, to remind Governors of the level of assurance in respect of the significant risk listed with the actions' schedule provided to Corporation. It was confirmed that this was highlighted at Corporation. **ACTION: Chair of Governors**
- Item 6a – audit tracking of purchase orders sample to be circulated to Committee members: **ACTION: Elaine French agreed to follow this up.**
- Referring to the discussion held earlier regarding the fixed asset register and following a question from a member of the Committee, it was confirmed that no physical checks had been carried out by the Internal Auditors, although the External Auditors had carried out physical checks in relation to the fixed asset register.
- GDPR action – continues to be progressed, noting that the new MIS Manager was taking this action forward on behalf of the College. Furthermore, Louise Pennington confirmed that as agreed, she would be reminding Governors annually about GDPR in the annual start of year letter. **ACTION: Louise Pennington**
- Policies – not yet actioned, but being progressed and note that Data Protection Policy will go directly to Corporation once draft finalised. **ACTION: Elaine French**
- Paul Herridge confirmed that his risk register query had been resolved by Elaine French.
- The various risk actions had been incorporated into the latest Risk Register.
- Critical Incident Plan – action to be carried forward owing to issues arising with establishing scenario testing for SLT; a new external contact to lead on this will be taking this forward. **ACTION: SLT**

b) Rolling Action Plan – financial statements audit and internal assurance

The Committee noted the contents of the rolling action plan which Elaine French introduced and the following updates and explanations were recorded:

- The end dates for actions are listed as Spring 2023, apart from the asset register deadline which is set for October 2023. The end dates have been set as the completion of this work will coincide with the timing of the follow up Internal Audit work due in March 2023.
- In response to a question from the Committee, it was confirmed that references in the document regarding the MIS Manager and or MIS Director, should in fact refer to the MIS Director, who was recently appointed.
- Referring to the responsibility and date entry/review date, and following a suggestion by the Committee, it was resolved to revise the entry to read “completion date”
ACTION; Elaine French

The Committee noted that all the other points listed were being dealt with or had been done and that each point would be reviewed by the Internal Audit at the next “follow up” audit.

7. Risk Management

Elaine French presented the Risk Management papers to the Committee, the contents of which were noted.

- Annual Report-** recommended to Corporation for approval (subject to revising the typo in Richard Seager's name).
- Assurance Map –** recommended to Corporation for approval.

c) Risk Register 2022/23 (note merged with Risk Management Action Plan in 2020/2021 academic year)

The contents of the latest Risk Register were considered by the Committee and the following points and observations made:

- In response to a question from the Committee, Elaine French confirmed that despite the mitigation actions, owing to ongoing threats, MA7 risk would remain high. It was also agreed that this should be referenced within the rolling action plan regarding cyber risk/MA7. **ACTION: Elaine French**
- It was also queried whether risk MA7 was connected to risk MA1 (critical incident plan) and it was noted that this was inherited by Elaine French when she was appointed as the Finance Director and it had been retained. It was noted that the Critical Incident Plan included various references to IT incidents, but that it was thought preferable that the Plan should reference all incidents and not be focused on IT.
- Regarding financial sustainability risk, the Committee raised issues relating to the current economic climate, including increasing energy costs notwithstanding that the College's energy contract was fixed until October 2023. It was noted that when the contract ends, the risk will have to be reviewed and consideration will also be given to adding utility costs to the risk register at that time or more probably incorporating it as a contribution to risk in relation to the annual cost in the budget. It was agreed to clarify the impact of utility costs within the financial sustainability risk. **ACTION: Elaine French**
- The Committee queried why the overall financial sustainability risk, with mitigation, was a medium risk and it was noted that if the risk was classified as "high", this would equate to a financial health categorisation of "requires improvement". At this point the Committee referred to the energy costs and budgeting and the contingency work underway to manage the increase in costs once the current contract comes to an end in October 2023, noting both the intention to build up the College's cash reserves, combined with working with the FEC on the College's curriculum costing model to improve efficiencies going forward – it was agreed to add these mitigation references into risk F1. It was also noted that the College had developed a separate financial sustainability plan (presented to Finance Committee earlier this month). **ACTION; Elaine French**
- In response to a request from the Committee, Elaine French agreed to add completion dates where appropriate within the document, unless rolling risk/actions year on year. **ACTION: Elaine French**
- It was agreed that references to "Board" should be revised to read "Corporation", where possible. **ACTION: Elaine French**

8. Internal Assurance Matters

Scott McCready joined the meeting via G. Meets and presented the following Internal Audit reports, highlighting various points as recorded below, followed by questions from the Committee.

a) Annual Report 2021/2022

The contents of the Report were noted and the following points were highlighted and comments made:

- Summary of audit work was highlighted noting that the College had adequate and effective controls in place.
- Recognised compliance with the various standards.
- Page 5 – highlights discussions with management.
- Page 6 – summary of audit work set out with 4 strong reports and 2 substantial reports.
- Page 7 and 8 – benchmarking information, comparing Varndean College with other similar FE providers. It was noted that the auditor had 50 educational clients and used 20 of its clients, who were similar in operation to the College, for comparison purposes, which was thought to be a reasonable sample.
- Page 9 – KPIs. With reference to the days for management to respond to the auditors, following a discussion between the auditor, Vice-Principal and Committee members, it was resolved to revise this from 10 days to 15 days, noting that reports were presented in a timely manner. **ACTION: Elaine French/Scott McCready**
- References to Board to be changed to read “Corporation” – **ACTION: Scott McCready**

Thanks were recorded from the auditors to the Finance Team for their work during this audit.

b) Internal Audit Plan

The internal audit Plan which was included for reference purposes for the Committee and it was noted that the Plan was originally approved at the June 2022 Audit Committee meeting.

- Following a suggestion from the Committee, it was agreed that for next year’s Plan, it would be useful to draft this with reference to the high risks as recorded in the Risk Register to ensure that the work aligns with this. **ACTION: Elaine French/Internal Auditors**
- The next internal audit will commence in January 2023, being on the subject of procurement. The auditors will review the policy and procedures and test via sampling. In response to a question from the Committee, it was confirmed that both internal and external arrangements associated with procurements would be tested and value for money would also be taken into account.
- It was agreed that any references to the risk Management Group in the various reports should be updated to reflect that the RMG was disbanded and the business absorbed into the Audit Committee during the Autumn Term 2021. **ACTION: Scott McCready/Elaine French**

c) Internal Audit Reports

Scott McCready highlighted the key points from the 2 internal audit reports, including:

i) Funding Review

- This is an annual audit.
- The audit was carried out in June and a substantial level of assurance was given, recognising the comprehensive systems and processes in place.
- Page 2: confirms review of both 16-19 and Adult Education funding, together with a review of the previous year’s recommendations.
- Work undertaken as reported, was noted, together with the conclusion and recommendations (some of which was partial recommendations arising from the

previous year which the new MIS Director was now taking forward since her appointment)

- 15 good practice points were identified.
- The 2 medium recommendations in the report were in respect of 2 outstanding actions from the previous year. The Committee queried the reasons for the delay in respect of these 2 recommendations and Elaine French reported that there had been restructuring in the Departments – Adult Education and MIS/Registry, with the new Director of MIS only recently being appointed.
- Regarding the above, the Committee also queried the timeline for actioning medium recommendations and it was explained that much of the supporting work had been taken forward after last year's audit, but that some of the remaining work had not been done until the MIS manager was appointed; the final sign off/end date for this follow up recommendation, is scheduled for Spring 2023.
- The Committee asked the auditor for information regarding their testing/sampling regime and it was confirmed that this was based on sector guidance from the ESFA and comprised 30 Learners and 10 Learner Agreements (randomly selected). It was recognised that the sample % was small, and also this complied with current guidance and was also an audit which was carried out annually by Varndean College. If the College decided to request a larger sampling exercise, this would take much more time and be more expensive.
- Following a question from the Committee, Scott McCready provided assurance to Governors regarding the compliance process following including testing the policy/procedures and sample and he confirmed that the auditors were satisfied that the evidence from the testing carried out which was in line with ESFA guidance, was sufficient to provide the assurance given in the report. The auditor offered to share a copy of the guidance issued nationally regarding the sample size for this audit work and the Committee agreed that this would be useful to assess the value of this audit work. **ACTION: Scott McCready/Elaine French.**
- The Committee also suggested that it would be helpful in future reports regarding the recommendations section, if the original implementation date was included within the management responses section, so that the Committee could see the first date, plus follow up action deadlines etc. **ACTION: Scott McCready/Elaine French**

ii) Corporate Governance

Scott McCready presented the report and highlighted the following:

- Overall positive outcome, with appropriate policies and procedures in place, which had been implemented.
- The Governor responses to the audit survey was highlighted, but noting that this hadn't been completed by all Governors in the limited time for responses made available. Reference was made to any comments received including 1 Member being unsure of the full roles and responsibilities.
- Conclusions on page 13 – no recommendations and a strong level of assurance.
- Page 14 – good practice highlighted including training, policies, skills analysis, attendance, Declaration of Interests information, code of conduct, standing orders etc – all following good practice.
- Page 18 benchmarking – overall very strong report for the College
- The Committee was surprised that there were no recommendations and queried whether there were areas where things could be progress and improved. At this point Louise Pennington reported on the new formatted Governance SAR which was

going to Corporation following recommendations of the S & G Committee and noting that this reflected on going improvements and progression in respect of governance.

- The Committee queried whether all Governors has completed their annual Declarations of Eligibility which was an annual requirement and in response Louise Pennington explained that there were a few outstanding returns due from Governors, but that these had been chased repeatedly and to deal with the outstanding returns, the Governors concerned would be invited to attend Corporation early to complete their submissions on line prior to Corporation. It was also recorded that the process had changed this year, with the annual start of year letter and forms/questionnaires for completion, being circulated solely on line, which although in the longer term will be easier and quicker for all, some Governors may have delayed responding owing to it being a new and unfamiliar process. At this point the Committee members advised that they'd found the new process much easier to manage. Finally, the Committee was informed that following discussion at the recent S & G Committee, the intention would be that the annual forms exercise, would be moved to the end of the Summer term, to give Governors more time to complete their annual forms. The Committee was also reminded that the annual Declaration of Eligibility forms had been circulated for completed in the Autumn Term last year, making the declarations still valid at the start of the new academic year.
- The Committee questioned the details in the report which summarised the governance structure and the Committees, working groups and Panels and it was confirmed that these were: Audit Committee, S & G Committee, Finance Committee, Remuneration Committee, Appeals Panel, Special Committee and Accommodation Working Group (and also during Covid 19, the Corporation had established the Emergency Governance Committee to deal with priority Corporation business during the crisis).
- Reference to Board should be replaced with "Corporation". **ACTION: Scott McCready.**

The Audit Committee thanked the Auditors for their work noting that the Reports would be included in the Corporation meeting papers. The Committee acknowledged the assurance gained from the internal audit work to both SLT and Governors.

9. Internal Auditors' Performance Indicators

Most of the Committee members were impressed with the auditors' performance although one Member queried whether the required level of detail was achieved together with some accuracy issues. Elaine French suggested in future that if there were specific issues which the Committee members wished to raise, it would be useful to have these in advance to share with the auditors. **ACTION: COMMITTEE MEMBERS**

The efficiency of the internal audit work and process was commended and Elaine French confirmed that despite the physical distance, with the auditors being based in Glasgow, having good systems in place, meant that the audit had run smoothly.

It was suggested that in future it would be useful to have the Audit Manager and the Auditor present at this meeting. **ACTION: Elaine French**

The Committee agreed that the revised performance indicators should be recommended to Corporation for approval. **ACTION: Elaine French**

b) External Audit Strategy and Memorandum/Plan – noted.

10. Policies and Other Documents – nothing to report this term

11. Fraud Report

Elaine French confirmed that there were no incidents of fraud to report.

Following a question from the Committee, querying how robust the College's fraud mitigations were, Elaine French agreed to request that this be included more prominently in future audits to provide further assurance as she confirmed that every audit area takes into account fraud issues. **ACTION :Elaine French**

12. Date of Next Meeting – Thursday 9th March 2023 at 10.15 a.m.

13. Any Other Business

Reference was made to the Committee' terms of reference, noting the reference above to revision the terms (revise paragraph 3) The following additional revisions were also suggested and recommended to Corporation for approval:

- Add wording enabling the Committee to speak to the auditors in the absence of management.
- Add Deputy Principal to attendance.

ACTION: Louise Pennington

The Committee Chair reported on some information acquired at the recent AoC Governor Audit Masterclass, which established that other Colleges have a separate agenda item for confidential discussions with the auditors. It was decided not to add another item to this Committee's agenda, but enhance the "note" at the very end of the agenda and move it to the beginning, placing it under the main heading. ("note": Before leaving the meeting, the External and Internal Auditors must in the absence of the Principal and SLT: a) Be given the opportunity to raise any issues or concerns with the Committee, b) Take any questions or queries from the Committee which may arise.). **ACTION: Chair/LEP**

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

Louise Pennington 24/11/22