

LEEDS COLLEGE OF BUILDING

AUDIT COMMITTEE

Minutes of the meeting held on Tuesday 12 July 2022 at 2.00pm, Meeting Room 1, North Street / Microsoft Teams.

PRESENT:

Mark Roper (Chair) (MR)
Elaine Armitage (EA) (*from 2.30pm via Microsoft Teams*)
Rachel Lindley (RL) (*attended via Microsoft Teams*)
Matthew Shields (MSh)
Sarah Wilson (SW) (*attended via Microsoft Teams*)

IN ATTENDANCE:

David Pullein (DP) – Vice Principal, Finance & Resources (*following Item 1*)
Nikki Davis (ND) – Vice Principal, Teaching, Learning & Quality (*following Item 1*)
Jonathan Creed (JC) – ICCA
Richard Lewis (RLe) – RSM
Karen Rolinson (KR) – Governance Adviser & Clerk to the Corporation
Nancy Fearnside (NF) – PA to Executive Team (minutes)

**ACTION
BY AND
TARGET
DATE**

1. OPEN DISCUSSION BETWEEN AUDITORS AND THE AUDIT COMMITTEE

JC stated that the audit plan was proceeding as planned and the last two reviews were ongoing. No significant issues were raised, although he acknowledged that the current economic climate was challenging.

MSh asked what the challenges moving forward would be. JC noted that these included Government changes, high inflation, high energy costs and education funding.

RLe felt that the FE sector is the forgotten part of education and had experienced uncertain times for a number of years. Auditing of the financial statements would need to tackle any issues regarding funding / income and he would discuss this with DP in the first instance.

SW noted the challenges facing FE and a reducing pool of students. She asked if RLe had any predictions on how the sector will deal with the challenges. RLe stated that young people lack clarity and guidance and do not really know where to go. He had also seen lots of mental health issues across the sector.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Debbie Forsythe-Conroy.

3. DETERMINATION OF ATTENDEES/OBSERVERS

The Audit Committee agreed attendees / observers at the meeting as per the attendance list above.

4. DECLARATION OF INTEREST

There were no declarations of interest.

5. MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 22 March 2022 were approved as a true and accurate record.

6. MATTERS ARISING

6.1 Ref Min 7

Actioned. MN / KR have looked into this and the best option is to move the Board Portal to Moodle during 2022/23.

6.2 Ref Min 10

Actioned – on Board Agenda Item 8.

7. UPDATE ON OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS

DP presented Item 8 (Outstanding Internal Audit Recommendations). He noted that all outstanding actions have now been closed off.

The Audit Committee noted the update on outstanding internal audit recommendations.

8. INTERNAL AUDIT REPORT

HR Performance Management Framework

JC presented the HR Performance Management Framework Report and stated that a Reasonable level of assurance had been given, with only two medium level recommendations.

JC noted that in 2020/21 a review of the staff performance process was undertaken and the formal appraisal process has now been replaced with Progress & Welfare meetings.

Recommendation 3.1 dealt with compliance issues and the management response was noted. Recommendation 3.2 related to measuring the impact; currently the Curriculum CARs and Progress and Welfare meetings are not formally measured. The College felt that a full review of effectiveness should take place at the end of the 2022/23 academic year.

RL noted that moving the performance reviews to more informal meetings was a positive shift. ND noted that feedback has been positive and staff felt that it was not just a tick box exercise. ND stated that we need to ensure everyone has access to these meetings and any issues dealt with early on.

RL asked if this was reflected in the People Strategy; ND stated that there were direct references to this in the People Strategy.

The Audit Committee noted the Internal Audit Report: HR Performance Management Framework.

9. DRAFT INTERNAL AUDIT PLAN 2022/23

JC presented the draft Internal Audit Plan for 2022/23. He had met with MR and DP previously and Section 4 was based on these discussions; if the risk profile changes amendments may be required. The plan currently includes:

- Risk-Based Coverage 2022/23
 - ESFA Mock Funding Audit – Apprenticeships (this area has the highest proportion of errors on internal audit)
 - Key Financial Controls – Corporate Credit Cards (the use of credit cards has increased due to the pandemic / working from home)
 - Additional Learning Support (how the system works as a whole, is the College drawing down the right amount of funding)
 - Tutorial Model (see how well this is embedded)
- Non-Risk-Based Coverage 2022/23
 - Corporate Governance – Board Effectiveness
 - Bursary Compliance
 - Follow-up of Previous Internal Recommendations
 - Management, Planning and Attendance at audit Committee.

Section 5 sets out the Internal Audit Strategy.

RL asked if all the top risks would be covered over a period of time. JC stated that not all risks could be audited and some new risks may be added. DP stated that the Top Risks tend to remain the same. RL felt it would be helpful to show judgements on what Governors can have assurances on.

RL felt that the effect of the controls could be looked at. JC noted that the ESFA risk (at 27) probably had the most amount of controls. He was conscious of the degree of impact of the controls, failure of these and management override, which are all key risks.

RLe stated that the key things from his perspective were Apprenticeships, ESFA funding audit, ALS and Corporate Governance. A review of Governance should be conducted every year, with an external review done on a 3 yearly basis, as noted in the ACoP. This would be included in the financial audit this year.

RLe noted that a review of payroll has not been carried out for a while. DP stated that this is under control but noted that the Payroll Manager would be leaving around Christmas and felt this should be looked at next year; the changeover of responsibilities would highlight any issues.

Members recommended the draft Internal Audit Plan 2022/23 for approval by the Board.

10. EXTERNAL AUDIT PLAN 2021/22

10a) RLe presented the External Audit Plan for 2021/22. Areas of focus include:

- Income recognition – ESFA
- Management override
- Pension scheme liabilities
- Going concern
- Regularity.

10. EXTERNAL AUDIT PLAN 2021/22 (continued)

RLe noted that next spring the actuarial pension review would take place and future contribution rates would be known. He felt this figure could be volatile and frightening, but all colleges were in the same boat. The figure is notional but would make the balance sheet look odd.

RL asked if the figure given by the actuaries is normally accepted. DP stated that we do normally accept this figure as they are experts in their field. We could challenge this and have an individual review carried out but there would be cost implications. DP noted that the auditors have said that the current figure is within an acceptable range.

RL asked if the five risks were sector generic or related particularly to LCB. RLe stated that these were mainly the same across the sector. Going Concern is a genuine issue and inflation, energy costs and pensions costs would all impact on the cash flow and this was an area of uncertainty.

The External Audit Plan included the fee proposal, which showed an increase. DP noted that every sector is having financial difficulties and the increased fee doesn't reflect the issues and felt that there should be some understanding of what colleges are going through.

RL agreed with DP and queried whether anything in the plan was optional or lower risk. RLe felt this was a good question. All assurances are taken into account and if it is not material it is not looked at. He would take away members' views and look at the fees further with DP.

RLe/DP
August 2022

JC agreed the sector is in a difficult situation; he had never seen anything like it on financial statements auditing in the last 25 years.

EA noted that fees are based on assumptions and asked if RLe could foresee any issues related to this; RLe said there was nothing to be concerned about. EA asked if a fee freeze was possible moving forward; RLe said that unfortunately this was not possible.

It was acknowledged that the College needs to ensure everything is ready for the audit to ensure this went smoothly.

Members agreed the External Audit Plan for 2021/22, subject to discussion on fees.

Overview of Managing Risks and Building Resilience Report (previously circulated via email 28/04/22)

RLe gave an overview of the Maximising your impact: Managing Risks and Building Resilience report. The top three risk areas for FE are finance, organisational (operations) and learning, teaching, curriculum and quality. Recruitment / retention is a key risk and IT and Cyber Security is high on the radar.

10. EXTERNAL AUDIT PLAN 2021/22 (continued)

Key finance related risks were detailed on Page 21. Fraud risks were outlined on Page 24, with key questions for organisations to consider and how to mitigate these. Key people (staffing) related risks were detailed on Page 28. DP stated that the College is aware of every aspect and is doing all it can to mitigate risks.

RL suggested that a focus on risks should take place at a future Audit Committee (ideally July 2023) so that Governors can be assured that controls are in place. DP said that he would pull together a document which covered where the variety of assurance was given in relation to risks. KR would add this to the Audit Committee calendar of business.

KR
August 2022

MSh asked how the College compares to others. RLe stated that the risk profile is set by the Regulator and risks / risk profile are considered and taken into account. Very few colleges have no debts and cash in the bank is a good thing. DP emphasised that the College needs to meet the Bank Covenants or it could be in danger of having to repay the loan immediately.

10b) Emerging Sector Update

RLe gave a brief overview of the emerging issues for FE; this report had not taken into account the ONS declassification of colleges review. The key points included:

- Audit Committee and internal auditor scope of work
- 2022 College Accounts Direction
- 2022 Post-16 Audit Code of Practice
- ESFA funding
- Subcontracting
- Funding summary
- Apprenticeships
- Cyber and Information Security.

Members noted the Emerging Sector update.

11. SUBCONTRACTING

11a) Update on Subcontracting Performance 2021/22

ND noted that the College has two main subcontracting activities. EAS Mechanical; this is now being rolled out to a conclusion as EAS have gained access to RoATP and will have a direct contract with the ESFA. NG Bailey is a model for subcontracting and the relationship is developing well. Providers are robustly performance managed, and any issues dealt with immediately. A rationale for subcontracting was attached and once approved will be placed on the College website. Details of the subcontractors for 2022/23 was included in the report.

11b) Supply Chain & Fees Policy

This Policy has been reviewed and once approved will be placed on the College website.

11. SUBCONTRACTING (continued)

11c) External Assurance Report on Subcontracting 2021/22

The ESFA require an annual independent audit of subcontracting arrangements. This has now been carried out and the report was on the portal for information. All five recommendations have been addressed or will be resolved once contracts are issued in the new academic year.

Members noted the update on subcontracting performance, agreed the Supply Chain & Fees Policy / Rationale for approval by the Board and noted the External Assurance Report on Subcontracting for 2021/22.

12. RISK MANAGEMENT (BUSINESS CONTINUITY) ANNUAL REPORT 2021/22

DP presented Item 12. He was still looking at reducing the number of risks by combining these and making it a tighter process.

The Audit Committee noted the Risk Management (Business Continuity) Annual Report.

13. INVESTING SURPLUS FUNDS

DP stated that there are significant cash balances in the bank and previously the College has made significant income from investments. The Treasury Management Policy, previously approved by the Board, was attached for information. This outlined that a maximum of £1m could be invested with any one institution.

MSh suggested that rather than investing the money, it could be used to pay back the interest on the loan. It was agreed that a wider debate would take place at the Development Day on 27 September 2022.

**DP
27 Sept. 2022**

Members agreed to recommend to the Board that surplus funds could be invested on the money market.

14. ONS REVIEW OF CLASSIFICATIONS OF COLLEGES

DP noted that the Office for National Statistics (ONS) are currently reviewing the classification of colleges with a view to bringing them into the public sector. A decision was due late September 2022.

DP felt that this would result in a lack of control over our own destiny, borrowing would not be allowed, and year ends could also change. RLe agreed that this would mean lack of freedom for colleges and more red tape.

SW asked if this could mean funding would get better. DP stated that the only benefit may be that VAT could be claimed back, like schools.

Members noted the situation regarding the ONS review of classifications of colleges.

15. FRAUD AND WHISTLEBLOWING REGISTER

DP confirmed that no incidences had been reported.

The Audit Committee noted the Fraud and Whistleblowing Register.

16. ANNUAL REVIEW OF INTERNAL & EXTERNAL AUDITORS' PERFORMANCE AND TO CONSIDER EXTENDING THE INTERNAL AUDITORS' APPOINTMENT

JC and RLe left the meeting for this item.

DP noted that this was ICCA's final year and he apologised that he had not addressed this earlier. Both internal and external auditors have done outstanding jobs.

RL asked if any issues had been raised. DP confirmed that no issues had occurred and the College has an open and transparent relationship with both internal and external auditors.

DP suggested that ICCA were appointed for a further 12 months, with a tendering process potentially taking place next year.

RL asked if ICCA were initially appointed for a 3+2 year term; DP stated that it had only been for 3 years.

EA stated that the reason for extending the contract should be recorded and potentially this could be for 1+1 year. DP stated that contracts can be terminated at any time due to poor performance.

Members agreed that ICCA should be appointed for a further year.

17. REVIEW OF COMMITTEE PERFORMANCE AGAINST 2021/22 TERMS OF REFERENCE AND COMMITTEE TERMS OF REFERENCE REVIEW 2022/23

17a) KR stated that an annual self-assessment has been undertaken against the terms of reference for 2021/22. All actions have been achieved and rag rated Green. KR would check the Committee attendance following this meeting.

**KR
July 2022**

Members noted the review of Committee Performance against the 2021/22 Terms of Reference.

17b) KR noted that the Terms of Reference for 2022/23 had been reviewed and were now in the standard format approved by Search & Governance. Due regard had been paid to the Post-16 Audit Code of Practice.

RL congratulated KR on this comprehensive and good piece of work.

Members approved the Audit Committee's Terms of Reference for 2022/23.

18. APPOINTMENT OF CHAIR & VICE CHAIR 2022/23

KR stated that we needed to approve the appointment of a Chair and Vice Chair for 2022/23. It has been suggested that MSh takes on the role of Chair, with MR becoming Vice Chair.

Members approved MSh as Chair and MR as Vice Chair of the Audit Committee for 2022/23.

DATE OF NEXT MEETING

The next meeting is scheduled for Tuesday 22 November 2022 at 2.00pm, North Street, Meeting Room 1.