NOT FOR PUBLICATION
Minute Nos. U22.37.3 and U22.45

SANDWELL COLLEGE

Minutes of the Audit Committee meeting held on Tuesday 22 November 2022, 8.00am

Present:	J Tew	Independent Governor (Acting Chair)
	T Sharma	Independent Governor
In attendance:	J Bailey	Exec Director, Finance and Resources
	S McKay	MacIntyre Hudson (not agenda items 5, 6, 7, 11, 12, 14-17)
	E Scotford	Clerk to the Corporation
	L Tweedie	RSM (not agenda items 14-17)
Apologies:	G Pennington	Principal

		Action
	The Acting Chair welcomed all present to the meeting and explained that Noel Grace, Committee Chair, had resigned from the Board since the last meeting due to work commitments. The Board had approved that John Tew be appointed as Acting Chair of the Committee for this meeting.	
U22.33	**Apologies**	
	Apologies were received from Graham Pennington.	
	RESOLVED THAT: Apologies were accepted.	
U22.34	**Declarations of Interest**	
	There were no declarations of interest.	
U22.35	**Minutes of previous meeting held on 21 June 2022**	
	RESOLVED THAT: Governors approved the minutes of the previous meeting held on 21 June 2022 for signing by the Chair.	
U22.36	**Matters Arising**	
36.1	Minute No. U22.18.3 – approval of the Capability Policy to be deferred to a future meeting of the F&S Committee – actioned.	
36.2	Minute No. U22.18.11 – the local skills agenda and local skills improvement plans place an obligation for collaboration on the sector which has to be reported on and published on the website - to be added to the Schedule of Business – actioned.	
36.3	Minute No. U22.29 – Governors to complete and return the committee effectiveness questionnaire – actioned.	
U22.37	**Internal Audit reports 2021/22**	
37.1	**Learner Number Systems – High Needs Controls Framework 4.21.22**	
37.1.1	The audit resulted in 2 Medium priority actions. One related to a number of learners who had progressed through different programmes in the College needing a new assessment of need for high needs funding	

	requirements at each stage of the journey – this took place but was not documented. A clear record of support provided was needed. The other related to funding which was received in 3 strands. It was important to show documented need and how money met that need.	
37.1.2	Governors asked if there was an overall conclusion as the report read as Substantial assurance. The IAS explained that they were not allowed to give an opinion as this was a compliance report so the judgment would be either compliant or non-compliant.	
37.1.3	Governors asked it this was a good outcome. The IAS confirmed it was and that appropriate systems and processes were in place.	
37.1.4	Governors noted that testing identified that in 9 of 15 cases, LAs had not provided the College with updated EHCPs and asked what was the usual deadline for these to be provided and noted the recommendation that the College should more stringently pursue LAs for the information. The College explained this was difficult and a sector-wide issue. There was no expectation for the College to take any more proactive action than it was taking. LAs were slow to respond and update EHCPs. The College strove to work with the LAs as effectively as it could.	
37.1.5	RESOLVED THAT: Governors received the Internal Audit Report on Learner Number Systems – High Needs Controls Framework.	
37.2	**Key Financial Controls – Cash and Banking 6.21.22**	
37.2.1	Overall, the audit was positive with Substantial assurance across specific areas of cash handling, catering and hairdressing.	
37.2.2	An immediate priority action was to ensure that wherever cash was handled there were suitable controls in place and segregation of duties where necessary.	
37.2.3	Governors noted that the recommendation for one management action had a completion date of December 2022 and asked if that was work in progress. The Exec Director, Finance & Resources, confirmed this had already been actioned.	
37.2.4	Governors asked for clarification whether there was an adequate Treasury Management Policy in place that required formal approval and would it be included and approved in the next review/revision of the Financial Regulations. The College explained that the audit focused on banking procedures. In recent years, very low interest rates meant there was little opportunity to generate returns on college cash reserves but interest rates were now rising so it would explore whether its cash could be generating returns for the College.	
37.2.5	Governors questioned why petty cash had been audited and why had cashflow management not been treated as a higher priority.	

	The IAS explained that cashflow was reviewed in management accounting audits and petty cash remained an important area of control as it was still the area where most frauds were uncovered in the sector.	
37.2.6	RESOLVED THAT: Governors received the Internal Audit Report on Key Financial Controls – Cash and Banking.	
37.3 NFP	**High Level Review of IT Cyber Security Controls 7.21.22**	
37.3.11	RESOLVED THAT: Governors received the Internal Audit Report on High Level Review of IT Cyber Security Controls.	
37.4	**Progress Report**	
37.4.1	The report outlined progress against the Audit Plan during the year. 3 internal audits were currently underway, the results of which would be presented to the March meeting.	
37.4.2	Update given on the external governance review requirement. The deadline for this to be undertaken was 31 July 2024. It had to be conducted by an independent provider so neither set of auditors would be able to be involved. The ESFA had provided a standard specification that needed to be covered by the review. Governors noted that this would be a significant piece of work with associated costs and time commitment.	
37.4.3	Governors noted the AoC Code of Good Governance was currently being reviewed and streamlined and asked how that affected the planned audit of the College's compliance against the Code in March 2023. The IAS believed that any changes to the Code would not be effective in the current academic year so colleges would still be required to adhere to the current Code.	
37.4.4	RESOLVED THAT: Governors received the Internal Audit Progress Report.	
U22.38	**<u>Value for Money 2021/22</u>**	
38.1	Governors found the report useful but noted it appeared to focus on non-pay/operating costs with limited reference to staffing expenditure. Governors asked if there was a document that outlined how resource management worked across the College which would outline how high-cost areas were managed, e.g. staffing, estates, etc. and how did the College achieve value for money from pay costs. Governors were reminded that the Board received reports on benchmarking staff costs compared to income in line with guidelines, e.g. 65%. Governors understood their role was strategic but recognised there was also a need to understand the basics of the organisation. Governors suggested that this be carried forward outside the meeting to decide what information was appropriate to be reported to the Committee. Governors asked the Exec Director, Finance & Resources, to then prepare a report that included the most appropriate information.	JB
38.2	Governors queried how department staffing levels were determined and what would happen if staffing was more or less than any calculated requirement. Governors recommended that staffing value for money be included in the report in future as this was the biggest single cost area. Governors asked	

	that this be carried forward to another meeting for discussion and oversight.	
38.3	Governors questioned how was space allocated and did the College have an excess or deficit. The College did not have any statistics to hand on space utilisation.	
38.4	Governors asked why the value for money report came to the Audit Committee. The Exec Director, Finance & Resources, explained staffing depended on curriculum planning and final enrolment numbers and it was an ongoing area of consideration for SLT.	
38.5	RESOLVED THAT: Governors received the Value For Money report 2021/22.	
U22.39	**<u>Health and Safety update</u>**	
39.1	Governors asked why the absence requirement for Covid was different for staff and students, i.e. staff were required to stay at home for 5 days but students only 3 days. The Exec Director, Finance & Resources, would follow up with the Health & Safety Manager.	 JB
39.2	Governors referred to fire drills and evacuation, specifically the 30-minute practical fire marshall training and noted that no departments had requested the training to date. Governors asked if the training was necessary or not and was it acceptable for departments not to take up the training. The Exec Director, Finance & Resources, would follow up with the Health & Safety Manager.	 JB
39.3	RESOLVED THAT: Governors received the health and safety update.	
U22.40	**<u>Financial Year-End 2021/22</u>**	
40.1	**Regularity Audit Self-Assessment Questionnaire (RASAQ)**	
40.1.1	Governors were reminded of the background, purpose and responsibility of the RASAQ.	
40.1.2	The FSA were satisfied with the questionnaire and recommended it be presented to the Board for approval.	
40.1.3	RESOLVED THAT: Governors considered the Regularity Audit Self-Assessment Questionnaire and would recommend it to the Board for approval.	
40.2	**Financial Statements and Regularity Audit** **40.2.1 Audit Findings Report 2021/22 incl.** **40.2.2 Letter of Representation** **40.2.3 Regularity Engagement Letter**	
40.2.1	**Audit Findings Report (AFR)**	

40.2.1.1	The audit complied with the provisions of International Standards on Auditing in particular: the nature and the scope of audit work undertaken; views about the qualitative aspects of the College's accounting practices and financial reporting; unadjusted and adjusted misstatements; matters specifically required by Auditing Standards to be communicated to those charged with governance (such as fraud and error); expected modifications to the FSA's auditor's report; material weaknesses in the accounting and internal control systems and; any other relevant and material matters relating to the audit.	
40.2.1.2	The AFR met the requirement of the Audit Code of Practice (ACOP) revised by the ESFA in September 2022.	
40.2.1.3	The FSA confirmed their independence and outlined their responsibilities. The FSA conducted the Teachers Pension Audit (TPA) but this did not conflict with their audit responsibilities.	
40.2.1.4	Governors' attention was drawn to matters arising from the audit.	
40.2.1.5	There had been an impact on the audit schedule because of the retirement of the Finance Manager and the Ofsted inspection but this had been mitigated as far as possible by the Finance and audit teams.	
40.2.1.6	A couple of unadjusted items had been identified: high needs funding of £118k; release of deferred grant income of £188k from the merger with Cadbury College. The FSA agreed with the management approach to these items: it was not known when the high needs funding would be received so it had been left outside the accounts as it was not material; the deferred grant income had now been released.	
40.2.1.7	Capital expenditure, particularly fixed asset register and accounting around major contracts – due to the timing of QS reports for the Cadbury project being mid-month, the College had recognised building work completed up to mid July 2022, hence a potential under accrual of c£200k for building work completed between mid July and month end. This would be a balance sheet only item hence not impacting the overall surplus for the year. Management and auditors agreed that this item was not material to the College's accounts.	
40.2.1.8	Capital commitment – an additional note was agreed to be added to the accounts to recognise post balance sheet capital commitments for building contracts relating to the Midlands Engineering Centre project that were signed between year end and the signing of the accounts.	
40.2.1.9	The FSA were content with the pension assumptions the College had been given and which it had had independently reviewed which were consistent with those being used by other colleges.	
40.2.1.10	The ILR work had been completed and the FSA concluded they could rely on the College's control environment.	
40.2.1.11	Endowment Fund (referred to by management as the Legacies Fund) – there was a plan to utilise this over a 2-3 year period.	
40.2.1.12	Letters of Representation – the only non-standard item was the £188k deferred income relating to Cadbury which had been released in the year.	
40.2.1.13	Risk of fraud and error in the financial statements had been tested and the FSA had not identified any matters to draw to Governors' attention. The FSA had considered the Harpur Adams case around holiday pay resulting	

	in a minor recommendation but were satisfied with related accounting estimates.	
40.2.1.14	All recommendations from the AFR were low grade this year: • there were a couple of minor differences to the fixed asset register but these would be reconciled through the period. • Additional analysis around VAT on catering receipts (to be done after the ONS review announcement. • Petty cash – specifically relating to regularity of reconciliations being confirmed • CSM Rental pre-payment – professional tax advice around rent to be sought • ILR – this was an advisory recommendation because the level of checks at 97.8% was very good. Errors were corrected as soon as found but a list of errors needed to be collated to track any trends or patterns to include as learning points for the next year. • Recording of authorisation of balance sheet reconciliations needed to be done. • Procurement procedures for significant purchases had all been cleared off.	
40.2.1.15	Unadjusted misstatements – 2 were for fixed assets, i.e. computer equipment that would sit in accruals. Governors asked why the unadjusted misstatements occurred and why they had not been picked up. The Exec Director, Finance & Resources, explained that one related to a £200k building cost and one for £106k related to IT equipment. Explanation given as to the background to each and how these had been handled in the accounts.	
40.2.1.16	Governors referred to the £188k provision release which related to the Cadbury merger and were satisfied with the explanation given by the Exec Director, Finance & Resources, that this had been properly considered in the audit work.	
40.2.1.17	Journal authorisation - Governors asked for more detail of controls around the journal processes as identified in the AFR, which was provided. The Exec Director, Finance & Resources, commented she also monitored the management accounts line by line each month so she would have identified if something had been posted in error. Governors asked for the opinion of both sets of auditors. The IAS explained that there was a lack of staff resources in the FE sector for a reviewer to sign off every journal so there had been a move away from that level of authorisation to random spot checks. Standard journals go through without secondary review as that would be labour intensive. The FSA advised that it would depend on the size of the College and the Finance team and because of review of month end management accounts, standard journals would be reviewed as a secondary check. Governors were reassured that the approach was in line with the sector and there were compensatory management controls to identify any issues.	

	Governors agreed that, given the size and complexity of the College, a pragmatic approach was needed.	
40.2.1.18	In response to a Governor's query, the College clarified it had no active subsidiaries and had not yet set up the subsidiary mentioned at the Board meeting.	
40.2.1.19	A sector update was provided.	
40.2.1.20	Governors queried a comment in the AFR and Letter of Representation around the Technical Education Employer Support Fund and the FSA and Exec Director, Finance and Resource, agreed this was a drafting error and the item was actually around the £188k Cadbury merger provision release – the FSA agreed to correct and reissue the AFR and Letter of Representation.	
40.2.2	**Letter of Representation**	
40.2.2.1	This was a standard letter other than the £188k Cadbury merger provision release.	
40.2.2.2	In response to a Governor's query, the FSA confirmed that the Letters of Representation required Governors' signature but not the Exec Director, Finance & Resources.	
40.2.3	**Regularity Engagement Letter**	
40.2.3.1	The letter was included because of a change to the ACOP in September requiring an update of the FSA's Letter of Engagement.	
40.2.3.2	RESOLVED THAT: Governors received and would recommend to the Board for approval the Audit Finding Report 2021/22, the Letter of Representation and the Regularity Engagement Letter.	
40.3	**Going Concern**	
40.3.1	Governors noted that the cashflow included in the report ran to July 2023 and asked to see the 12-month cashflow to December 2023. The College explained that, because of the way that the ESFA funding operated, there was always a low point in March/April. The reason for an overall cash outflow this year was that some cash was received prior to July 2022 to fund capital projects that had to be paid out now the buildings were in the build stage. The additional bank loan discussed by Governors would not now be taken up by the College due to the ONS situation and rising interest rates. The cashflow in July included the additional £3 million bank loan.	
40.3.2	Extended cashflow to 2023 – the Exec Director, Finance & Resources, agreed to extend the cashflow currently prepared to December 2023 and circulate to Audit Committee members.	JB
40.3.3	Governors received an update on going concern and were assured that the College could meet its liabilities.	
40.3.4	RESOLVED THAT: Governors noted that the College remained a going concern.	

40.4	**Internal Audit Annual Report 2021/22**	
40.4.1	The report summarised all individual assignments providing an overall internal audit opinion. The IAS concluded that the College had an adequate control framework for risk management, governance and internal control. This was the second of 4 levels of assurance which was consistent with around 80% of FE colleges. The current year should be broadly similar. There was a positive outcome from the audit work and the overall result was positive.	
40.4.2	Governors noted this was a good outcome thanks to the work of the Exec Director, Finance & Resources, and the wider college teams.	
40.4.3	RESOLVED THAT: Governors would recommend the Internal Audit Annual Report 2021/22 to the Board for approval.	
40.5	**ISA 240 Self-Assessment Questionnaire – update**	
	RESOLVED THAT: Governors noted the ISA 240 Self-Assessment Questionnaire.	
40.6	**ISA 540**	
40.6.1	Governors asked the purpose of this ISA requirement was as an example referred to depreciation. The FSA explained that this was an area where management could make a judgment. The Exec Director, Finance & Resources, explained that, following a review, the Depreciation Policy had not been changed but more consideration of useful economic lives had been included. Two additional areas of estimate had been added this year. • Pension increase related to the inflationary impact on pensions. Some colleges had had their actuaries carry out another assessment. The College suggested had used Hymans Roberts who had concentrated on the potential for ongoing changes at the present time. • Potential holiday pay provision resulting from the Harpur Acams case – following investigation into this matter and whether the College may have exposure, management's position was that the College policy on holiday pay for hourly paid and term-time staff meant there was minimal exposure to this risk and hence no additional provision required. Governors asked if that meant they were paid a holiday pay supplement. The College explained its default position was to pay holiday pay in August but staff were entitled to ask for it at a different time of the year however they usually preferred to receive it in the summer.	
40.6.2	RESOLVED THAT: Governors noted the ISA 540.	

40.7	**Reconciliation of Period 12 Management Accounts (July 2022) to the Financial Statements 2021/22**	
40.7.1	The reconciliation included both the Adjusted Surplus (i.e. before FRS102 pension adjustments) and the overall surplus/deficit (i.e. the 'bottom line' position. Reconciling items were explained, and mainly centred around pensions. The Exec Director, Finance & Resources, explained that the Adjusted Surplus gave a truer measure of financial performance and was the profitability KPI monitored by the FE Commissioner. This was because the FRS102 pension adjustments were non-cash figures. Governors agreed with the College's explanation and its drive for consistency on the figures as the position was so changeable at present, and were satisfied with the approach to adjustments. Governors asked, if the College sought a breakeven even after FRS102 adjustments, would this help ensure the organisation always had a strong cashflow. In response, the Exec Director, Finance & Resources, commented that there was an increasing need to reinvest in the College estate through capital expenditure. The College aimed for a percentage of 3-4% of turnover as the adjusted profit figure to retain its Outstanding financial health rating and the ability to invest in the assets of the College.	
40.7.2	RESOLVED THAT: Governors received and noted the Reconciliation of Period 12 Management Accounts (July 2022) to the Financial Statements 2021/22.	
40.8	**Members Report and Financial Statements 2021/22**	
40.8.1	Noel Grace's resignation date as Committee Chair and Governor would be included.	
40.8.2	The report would be updated as the contract for the MEC was due to be signed imminently which was a significant capital commitment.	
40.8.3	Income and expenditure – numbers on the reconciliation showed a year on year movement on income and staffing costs.	
40.8.4	In respect of the balance sheet and overall net assets position, it was noted that there had been a number of movements on the pension. The net assets position had moved from a £1 million overall surplus to £30 million whereas in previous years there had been a £20 million swing in the opposite direction. The position was subject to much fluctuation. Like most colleges, the College had a strong balance sheet apart from the LGPS.	
40.8.5	Governors noted that the Chair of the Corporation would meet with the FSA again this year to meet the requirements of the Post-16 Audit Code of Practice. Clerk to arrange.	Clerk
40.8.6	Governors noted that net current assets dropped from £5.5 million last year to £4.5 million this year and asked what was the reason for the drop if the College was still generating cash.	

	The College explained this was because of capital projects and the timing of grant receipts and payments to contractors. Governors asked if the buildings were grant funded and the College had received some of the money, why did that affect net current assets. The College explained that capital projects were non-current assets and grants classified as non-current liabilities, but payments due to building contractors were current liabilities hence this could impact the position.	
40.8.7	RESOLVED THAT: Governors would recommend the Members Report and Financial Statements 2021/22 to the Board for approval.	
40.9	**Draft Annual Report of the Audit Committee to Board of Governors and the Accounting Officer 2021/22**	
	RESOLVED THAT: Governors approved the draft Annual Report of the Audit Committee.	
U22.41	**Risk Register**	
41.1	Management had reviewed the Risk Register, particularly in relation to the current position for: Covid, Ofsted, UCU pay agreement. Removable media had now been included in cyber risk.	
41.2	The Exec Director, Finance & Resources, to check the scores on page 263.	JB
41.3	The Exec Director, Finance & Resources, reminded Governors that whilst the Audit Committee monitored the Risk Register as a whole, each committee reviewed its own areas of responsibility in detail and the Risk Register was also presented to the Board.	
41.4	RESOLVED THAT: Governors monitored and noted the Risk Register.	
U22.42	**Policies/procedures**	
	There were no policies or procedures to review/approve.	
U22.43	**Any Other Business**	
43.1	**ONS Review**	
43.1.1	Paper to be circulated outside the meeting. Clerk to obtain copy from FSA.	Clerk
43.1.2	The announcement of the results and recommendations of the review were expected early w/c 28 November 2022 following delays caused by the pandemic.	
43.1.3	On the presumption that the designation changed and colleges became public entities again, predictions included: a change to the financial year end date; SORP moving towards Charities SORP. A change to the year end to March would not be sensible for an academic year cycle.	
43.1.4	The ONS had had in depth discussions with banks as debt was a major issue across the sector with college debt now £1 billion, the lowest it had ever been so now was the right time for such a change.	

43.1.5	Colleges' ability to borrow would stop. There was a possibility that debt might be internalised and be replaced by capital grants which could be devolved to mayoral or local authorities.	
43.1.6	The move might tie into the levelling up agenda and where capital grants were allocated.	
43.1.7	Leases would become more complicated as well as trading subsidiaries. This would be a significant issue for those with non-trading subsidiaries set up to avoid the LGPS. College staff would be defined as public sector workers. There could be changes to what control the College had over staff payments, settlements and severances.	
43.1.8	Some funding available to institutions was advantageous, particularly the potential change to VAT status, but this was not guaranteed.	
43.1.9	Pensions – at present colleges stand outside the public sector so are deemed to have a much higher risk profile and contributions to the Scheme sit at a higher rate but if brought back into the public sector it would lead to a reduction in LGPS contribution rates.	
43.1.10	Managing public money – most leases would become more stringent with more approval levels. The academy regime was much more strict.	
43.1.11	Increased intervention and governance control – the ESFA was allowed to appoint Governors to the Board.	
43.1.12	Colleges would lose much of their independence.	
43.1.13	The changes would be quite fundamental but would not all be implemented immediately and would depend on individual circumstances.	
43.1.14	Governors noted that many unknowns remained and any changes would take time to implement. The changes could become a political issue which would delay any implementation still further. The auditors pointed out that some changes could happen relatively quickly and would require quick action.	
43.1.15	Governors noted that making the role of Governors more onerous might make recruitment even more difficult.	
43.1.16	The College advised that the bank loan and subsidiary it had proposed to the Board had been explored further by management but would not now be taken up as it was believed more prudent not to pursue them in the current climate of rising interest rates and the uncertainties of the implications of the ONS review on college debt and surpluses.	
43.1.17	VAT would be the major advantage but in the current climate of spending cuts and increased tax this was unlikely to materialise.	
43.1.18	The ESFA had been aligning all their guidance with FE and academies so the direction of travel suggested the move to reclassification was already decided.	
43.1.19	Governors welcomed some form of Board briefing when the decision had been announced.	
U22.44	Governors thanked the auditors for their work.	

	LT and SM left the meeting	
	<u>CONFIDENTIAL SESSION**</u>**	
U22.45 NFP	**<u>Performance of Internal Auditors and Financial Statements Auditors 2021/22</u>**	
U22.46	**<u>Any Other Business</u>**	
	There was no other business.	
U22.47	**<u>Determination of confidential items</u>**	
	Minute Nos. U22.37.3 and U22.45.	
U22.48	**<u>Date and time of next meeting</u>** **Tuesday 7 March 2023, 8.00am**	

The meeting ended at 10.05am