

## MILTON KEYNES COLLEGE

### AUDIT & RISK COMMITTEE

Part 2 Minutes of the meeting held on 2<sup>nd</sup> December 2021  
Room G6, Chaffron Way  
08:40 – 10:20

Committee Members	Attendance Record 2021-2022	Present at this meeting
Richard Bartlett-Rawlings Alan Cook (Chair) Peter Cox Mat Gotkowski	1 of 1 1 of 1 1 of 1 1 of 1	Richard Bartlett-Rawlings Alan Cook Peter Cox Mat Gotkowski (via Teams)
Total percentage attendance this meeting	100%	4/4
Total percentage attendance year to date	100%	4/4

In attendance: Julie Mills (CEO), Martin Owen (Interim CFO), Jason Mansell (Senior Operations Director Prison Services), Miranda Coles (Interim Executive Head of Finance), Karen Brown (Head of Governance),

Simon Cox (Elucidate), Hugh Swainson (Buzzacott)

## PART 1

**Confidential (minuted separately)**

## PART 2

### PROCEDURAL

#### 2.1 Committee Chair

The Committee ratified the election of Alan Cook as Committee Chair and Richard Bartlett-Rawlings, as Committee Vice-Chair for 2021/22 (previously agreed by email).

#### 2.2 Welcome and Apologies

Martin Owen, Jason Mansell, and Miranda Coles were welcomed to their first Audit & Risk Committee meeting.

Apologies were noted from Imelda Galvin and Will Gordon.

Thanks were expressed to Kuldip Kaur who has stepped down from the Committee due to a conflict of interest.

The Committee Chair noted the (lack of) diversity of the Committee which will be a consideration for this cycle.

## 2.2A Declaration of Interests

Richard Bartlett-Rawlings had a declared interest in item 8.2 and will withdraw from part of that item.

## 2.3 **The Committee approved the minutes of the meeting held on 17<sup>th</sup> June 2021 (previously circulated as Papers 2.3A and 2.3B)**

There was one matter arising which has been completed.

*Julie Mills joined the meeting at 08:45*

## 3.0 2020/21 ASSURANCE

### 3.1 Internal Audit 2020/21 (previously circulated as Paper 3.1)

Simon Cox advised that five audits relating to the 2020/21 IAS plan had been completed and published since the last meeting:

#### 3.1.1 Sub-Contracting

The opinion is that the systems and controls provide '**satisfactory assurance**' (which is the highest level).

There was one 'merits attention' recommendation which was addressed before the audit was completed. The report has been accepted by the College management.

To address the recommendation relating to the Arts1 contract, the CEO had presented a paper to the Board on 14<sup>th</sup> July 2021 (Paper 3.2); the contract obligations will be made clear to the Board in future. The ESFA also requested more information about this contract and was content with the information provided.

#### 3.1.2 Safeguarding

The opinion is that the systems and controls provide '**satisfactory assurance**' (which is the highest level).

There was one 'merits attention' recommendation which has since been addressed. The report has been accepted by the College management.

The Curriculum and Quality Group also asked the DSL (Designated Safeguarding Lead) to attend the CQG meeting on 18<sup>th</sup> October 2021 to give assurance that the process had been reviewed.

#### 3.1.3 Prison Education

The opinion is that the systems and controls provide '**satisfactory assurance**' (which is the highest level).

There were no recommendations. The report has been accepted by the College management.

The Committee noted that the opinion was based on a sample of prisons (chosen by the auditor) and different sites would be chosen next time. In addition, an external assessor visited other sites.

### **3.1.4 Estates Strategy**

The opinion is that the systems and controls provide '**satisfactory assurance**' (which is the highest level).

There were no recommendations. The report has been accepted by the College management.

### **3.1.5 Programme and Project Management**

The opinion is that the systems and controls provide '**moderate assurance**'.

There were two 'significant' recommendations relating to policy & procedures / project closure arrangements. The report has been accepted by the College management.

Simon explained that there were no issues with the two projects (IoT and Data Warehouse) however, the IoT has significant risks and a robust risk management process in place. The moderate assurance related to documentation not being in place for every project.

Martin Owen added that since the audit, a project director had been appointed who will have oversight of all projects as a suite / portfolio to ensure consistency and to increase efficiency. The College is also developing approaches to transition projects to 'business as usual' as appropriate.

Governors asked a question to which Martin responded:

#### ***Is there adequate resource for projects?***

If the CTF bid is successful (total project value £8.266m with 50% matched funding contribution from the College), resourcing will need to be considered. The College has brought in a SME to advise on the data warehouse.

For other projects we have the skills and borderline capacity.

The Committee Chair offered to re-introduce the College to a programme management expert who may be able to advise.

***The Committee noted the report and approved the management responses.***

## **3.2 Internal Audit Satisfaction Questionnaires (previously circulated as Paper 3.2)**

Simon Cox concurred with the Safeguarding scores and explained that the auditor had been taken ill.

The Committee noted that the range of scores reflects a different approach to marking. Martin will discuss the Programme and Project Management scores with Alex Warner.

Where there is an 'unsatisfactory' score, the Committee requested an explanation.

***The Committee noted the satisfaction questionnaires relating to item 3.1***

### 3.3 Internal Audit Annual Report and Assurance Statement 2020/21 (previously circulated as Paper 3.3)

Simon Cox confirmed that all the agreed audit work had been completed.

The Committee's attention was drawn to the unqualified audit opinion.

*"Based on the internal work carried out in 2020/21, we consider that Milton Keynes College's governance, risk management and internal control arrangements are generally adequate and effective to manage its achievement of the College's objectives. Certain weaknesses and exceptions were highlighted by our audit work and all these matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports."*

*"The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required."*

There had been 10 reviews during 2020/21 (9 in 2019/20):

- 2 reviews had been deferred to 2021/22 (governance - performance management and quality arrangements)
- 8 reviews had received satisfactory assurance (highest level)
- 1 review had received moderate assurance
- 1 review was advisory (no opinion given)
- No reviews had received limited assurance
- Overall there had been:
  - No fundamental recommendations
  - 6 significant recommendations
  - 9 merits attention recommendations

***The Committee reviewed and approved the Internal Auditor's annual report and assurance statement for the year ending 31 July 2021 and recommended this to the Board for approval.***

### 3.4 Going Concern Assurance / Letters of Support for Subsidiaries I (previously circulated as Paper 3.4)

Mat Gotkowski confirmed that the Finance Group had reviewed the going concern report and the two draft letters confirming that the College will continue to support the two trading subsidiaries (The Code Makers Academy Ltd and MKC Commercial Ltd) in 2021/22. The Finance Group had welcomed the going concern evidence.

***The Committee:***

- ***Approved the Going Concern Statement which supports the Board's statement on going concern in the financial statements***
- ***Approved the Letters of Support for the trading subsidiaries for signing by the Chair of Governors***

### 3.5 Draft Financial Statements 2020/21

#### a) External Audit Post Audit Report for year ending 31<sup>st</sup> July 2021 (previously circulated as Paper 3.5A)

Hugh Swainson went through the report, highlighted key points and answered questions from Committee members:

## Audit Opinion

- The audit went well and is on track.
- Buzzacott anticipate issuing an unqualified audit opinion on the financial statements and regularity.
- There are some final checks to be completed including final review of the draft subsidiary financial statements, finalised going concern assessment for the two active subsidiaries (including the letters of support), ESFA final funding reconciliation and the signed letter of representation.

## Financial Performance and Going Concern

- The 'operational' surplus for the year was £1.293m (budget £0.659m surplus) (FY 2021 £1.411m surplus).
- Net current liabilities were £1.292m (which includes £1.173m deferred capital grants and holiday pay accruals).
- In the statutory accounts (item 3.5B) the Board is confirming that it believes the College is a going concern for a period of at least 12 months from the date of signing the accounts. There is an improving financial position however to support this statement, auditors recommend that governors should review on a regular basis:
  - student number data
  - timely management accounts
  - current cash flow position and future cash projections
  - College budgets and regularly updated forecasts
- The total consolidated reserves have decreased by £4.391m (£11.602m) providing net liabilities of £21.509m (£17.118m) at the balance sheet date.

## Other Matters

- Risks which were identified in the pre-audit planning were reviewed during the audit:
  - Coronavirus and going concern
  - Income recognition (ESFA reconciliation statement)
  - Regularity
  - IoT project
  - Subsidiary companies
  - Staff Costs
  - Sub-contractor provision
  - Management override of controls
  - Related party transactions
  - Accounting Estimates
- There are two recommendations relating to the new trading subsidiaries (separate records, governance and directorship) and depreciation of software.
- The College's 2021 key financial ratios were compared to Buzzacott colleges (2020) and sector benchmarks (2020). The current ratio, payroll costs and cash days in hand are unfavourable compared to the 'General FE Colleges' benchmark however, the College's EBITDA is lower and borrowing as a percentage of income is much lower.

- The College is expecting c.£570k from the DfE which will offset any impairment of the IoT asset.

#### Teachers' Pension Scheme Grant

- The liability on the balance sheet in relation to the TPS grant has increased to £1.4m. The amount of the grant was based on the number of scheme members the College had at the time of the assessment (which included the period when the College's previous prison contract was much larger). Consequently costs were less than the grant received.
- Martin Owen has asked the AOC for advice and, if necessary, legal / accounting advice will be taken.
- Governors agreed this was the correct way to treat this in the accounts.

#### Local Government Pension Scheme (LGPS)

- The College's assumptions relating to the LGPS are optimistic. The salary increase assumption is 2% compared to the sector average of 3.3% and life expectancy is approximately one year shorter than the average across the sector.

#### Holiday Pay

- Holiday pay accrual is £1m (subject to £45k unadjusted item).

***The Committee reviewed the External Auditor's Post Audit Report for the year ended 31 July 2021 and recommended this to the Board for approval***

#### **b) Draft Report and Financial Statements 2020/21 (previously circulated as Paper 3.5B)**

Matt Gotkowski will send feedback directly to Martin and Miranda.

The Committee Chair drew attention to the Committee's 100% attendance and the Audit & Risk Statement on page 16.

Governors asked questions:

***Can the numbers which indicate good financial performance be included in the Strategic Report (page 6 of Paper 3.5A)?***

Yes, these will be added.

There was a discussion regarding the accounting treatment of the aborted costs repayment and the associated impact on the asset. Martin Owen indicated that this would be assessed in full once the funding had been received and any terms for this understood. However, it was expected that the matching principle will be followed with the receipt and the asset.

***The Committee reviewed the draft Report and Financial Statements for the Year Ended 31 July 2021 and recommended these to the Board for approval (subject to any post meeting amendments)***

### c) **Subsidiary Companies** (*previously circulated as Paper 3.5C*)

Martin Owen outlined the position in relation to the four wholly owned subsidiaries:

- The Code Makers Academy Limited (CMA)
- MKC Commercial Limited (MKCC)
- Prison Education Training Services Limited (PETS) (dormant)
- Manpower Forum (MK) Limited (dormant) (MFMK)

An overview was included in Paper 3.5C and the Committee noted the actions:

- 1) The Corporation will appoint additional directors (a written resolution will be circulated for approval)
- 2) Directors' meetings will be convened to sign the accounts.
- 3) Legal agreements (Memorandum of Understanding) will be established between the entities and the College to establish the basis of activities
- 4) A working capital loan arrangement will be put in place between CMA Ltd and the College showing the maximum required facility, interest, and repayment arrangements. (CMA made a c.£200k loss in 2020/21). If required, there will be a similar arrangement for MKCC.
- 5) Separate ledgers, bank accounts and monthly management accounts will be established.

#### **The Committee:**

- ***Reviewed the draft accounts for the subsidiary companies and recommended these to the Board (subject to approval by the directors)***
- ***Noted the status of matters outstanding relating to the subsidiary companies and agreed the actions***

### d) **Draft Representation Letter 2020/21** (*previously circulated as Paper 3.5C*)

Buzzacott require the letter of representation to be signed on behalf of the Board. This asks the Governors to confirm specific matters and confirmation immediately prior to the financial statements being signed, that no significant events have taken place since the time of the audit that would impact on the financial statements.

***The Committee reviewed the draft Representation Letter for the year ended 31 July 2021 and recommended this to the Board for approval***

## **4.0 2021/22 ASSURANCE**

### **4.1 Internal Audit Progress Report 2021/22** (*previously circulated as Paper 4.1*)

Simon Cox advised that two audits relating to the 2021/22 IAS plan had been completed and published:

#### **4.1.1 Accounts Payable / Creditors**

The opinion is that the systems and controls provide '**satisfactory assurance**' (which is the highest level).

There was one 'merits attention' recommendation. The report has been accepted by the College management.

#### **4.1.2 Debtors & Other Income / Accounts Receivable**

The opinion is that the systems and controls provide '**satisfactory assurance**' (which is the highest level).

There was one 'merits attention' recommendation. The report has been accepted by the College management.

***The Committee noted the internal audit progress report and approved the management responses***

**4.2 Internal Audit Performance Survey Questionnaire** *(previously circulated as Paper 4.2)*

***The Committee noted the Performance Survey Questionnaires relating to the audits included in 4.1***

**4.3 Progress in implementing recommendations from previous audit reports** *(previously circulated as Paper 4.3)*

Martin Owen updated the Committee on the progress in implementing previous audit recommendations:

Internal Audit

Since the last meeting, there have been 6 new and 9 completed recommendations. There are currently 6 recommendations outstanding of which 4 have passed their implementation date (2 significant and 2 merits attention).

The Committee agreed the extensions.

Funding Assurance Review (RSM)

Since the last meeting, there have been 16 completed actions. There are currently 10 recommendations outstanding of which 4 have passed their implementation date (1 high, 3 medium and 6 low priority). Most relate to apprenticeships paperwork. The actions have new owners and Martin is overseeing.

The Committee agreed the extensions on an exceptional basis.

***The Committee reviewed the report, noted progress, and agreed revised implementation dates where requested.***

**4.4 Risk Management & Board Assurance** *(previously circulated as Papers 4.4A and 4.4B)*

Martin Owen reported that the Risk Management Group had reviewed the Strategic Risk Register and:

- Aligned this to the Strategic Plan
- Changed the scoring grid to 5 x 5
- Added a heatmap

Since the A&R Committee meeting in June, the College's Risk Management Group (RMG) has met four times and the minutes were included in Paper 4.4A. Matters reviewed by the RMG included safeguarding, data breach, cyber-attacks, project risks (College Business Centre / ITC extension), GDPR, student recruitment and EDI.

There are twelve strategic risks of which three residual risks are red (highest impact / likelihood) and nine are amber (medium impact / priority). The red residual risks are:

1. Harm to students, staff, and members of the wider college community – **Safeguarding**
2. **Data breach** resulting in a fine and reputational damage
3. Financial/data losses and reputational damage as a result of a **cyber attack**

As reported to the Board in October, the education sector is seeing an increasing number of safeguarding and mental health incidents.

***The Committee recommended the Strategic Risk Register to the Board for approval***

#### **4.5 Data Security / GDPR (previously circulated as Paper 4.5)**

Jason Mansell, who is the new Group DPO (Data Protection Officer), updated the Committee on data security.

There have been four DSAR requests, two FOI requests and five other requests for information which have been dealt with. Advice is sought from solicitors if requests are thought to be vexatious.

There were four isolated minor level breaches which have been dealt with appropriately, but no significant GDPR breaches which required reporting to the ICO.

The College continues to see an increase in fraudulent and malicious emails (which is a sector issue), but so far none have resulted in a data breach, due to action taken to mitigate the risks by the College's IT Services Team.

Training modules have been updated and Jason is reviewing and updating all procedures and documentation.

***The Committee noted the assurance on Data Security***

## **5.0 Governance**

### **5.1 Committee Annual Report to the Board 2020/21 (draft) (previously circulated as Paper 5.1)**

The draft report outlines the work of the A&R Committee for the period 1<sup>st</sup> August 2020 to 2<sup>nd</sup> December 2021 including matters covered at this meeting.

A copy of the final report will be sent to the ESFA with the financial statements.

The final paragraph is the Committee's opinion and assurance to the Board on the adequacy and effectiveness of the assurance framework, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets.

***The Committee reviewed and approved its draft Annual Report for 2020/21 for submission to the Board with the financial statements***

### **5.2 Public Interest Disclosure (whistleblowing) (previously circulated as Paper 5.2)**

Further to the report at the last meeting, there has been no further response from the ESFA relating to PID1B and consequently this investigation will be closed.

***The Committee noted the update and approved the proposed action***

## CONSENT AGENDA

*The following items were approved by consent / without discussion:*

**6.1 Regularity Self-assessment questionnaire (RSAQ) (previously circulated as Paper 6.1)**

*The Committee reviewed and approved the SAQ and authorised the CEO and Group Principal and Chair of Governors to sign this (for submission to the Board with the financial statements)*

**6.2 Self-Assessment against Annex C of the Audit Code of Practice Summary of regularity concerns (previously circulated as Paper 6.2)**

*The Committee received the assurance relating to Annex C*

**6.3 Assurance relating to anti-fraud (ACoP Annex D) (previously circulated as Paper 6.3)**

*The Committee received the assurance relating to Annex D*

**6.4 Value for Money Statement 2020/21, KPIs for 2021/22 / Value for Money Policy (previously circulated as Paper 6.4)**

*The Committee:*

- *Approved the Value for Money Statement for 2020/21*
- *Approved the KPIs for 2021/22*
- *Recommended the Value for Money Policy to the Board for approval*

**6.5 Code of Good Governance for English Colleges**

*The Committee noted that the Search & Governance Committee, at its meeting on 15<sup>th</sup> November 2021, reviewed the Code of Good Governance for English Colleges and agreed that the Board was compliant in all areas.*

**6.6 Board Members' and ELT Expenses, Gifts and Hospitality 2020/21 (previously circulated as Paper 6.6)**

*The Committee approved the report for publication on the College website*

**6.7 College Financial Regulations (previously circulated as Paper 6.7)**

The Committee reviewed the following sections of the Financial Regulations:  
Section 3: Accounting Policies & Procedures, Statistical Information, Taxation, Audit and Retention of Records  
Section 4: Revenue and Capital Budget  
Section 6: Purchasing and Competitive Tendering  
Section 11: Research Projects and External Contracts  
Section 14: Risk Management

*The Committee recommended the Financial Regulations to the Board for approval (subject to removing reference to the EU in Section 6)*

**6.8 Committee Performance – self-assessment 2020/21 (previously circulated as Paper 6.8)**

*The Committee approved its self-assessment of the Committee's performance*

**6.9 Anti-Fraud and Corruption Policy (previously circulated as Paper 6.9)**

*The Committee recommended the Anti-Fraud and Corruption Policy to the Board for approval*

**ANY OTHER BUSINESS**

7.1 Nothing raised.

**NEXT MEETING: 17<sup>th</sup> March 2022**

*The Auditors were thanked for attending and they left the meeting.*

**PART 3**

**Confidential (minuted separately)**