

MILTON KEYNES COLLEGE

AUDIT & RISK COMMITTEE

Part 2 Minutes of the meeting held on 19th December 2022

Teams

08:45 – 10:55

Committee Members	Attendance Record 2022-2023	Present at this meeting
Richard Bartlett-Rawlings Alan Cook (Chair) Peter Cox Mat Gotkowski	2 of 2 2 of 2 2 of 2 1 of 2	Richard Bartlett-Rawlings Alan Cook Peter Cox Sent apologies
Total percentage attendance this meeting	75%	3/4
Total percentage attendance year to date	88%	7/8

In attendance: Sally Alexander (CEO), Miranda Coles (CFO), Jason Mansell (Principal: Quality and Student Experience) Karen Brown, Head of Governance, Sam Samuels, Governance Partner, Hugh Swainson, Buzzacott

PART 1

Confidential (minuted separately)

PART 2

PROCEDURAL

2.1 Welcome and Apologies

The Chair thanked everyone for attending this additional meeting. Apologies were received from Mat Gotkowski (diary conflict).

2.2 Declaration of Interests

Richard Bartlett-Rawlings has declared in interest in item 3.1 (but this was not considered to be a conflict)

2.3 Minutes of the Last Meeting (24th November 2022)

The Committee approved the minutes of the meeting held on 24th November 2022 (previously circulated as Papers Confidential 2.3A, 2.3B and Confidential 2.3C)

Matters arising

- CMA Ltd and apprenticeships
As the accounts for FY2021 have been restated, this is no longer an issue.
- People Risk (recruitment etc)
This will be reported in March 2023 (at the same time as the internal audit)

24.11.22	Review the timetable for the financial statements and schedule an A&R Meeting prior to Board sign-off	Interim CFO	Complete
	Alert ESFA/ DfE re CMA Ltd if appropriate (apprenticeships)	CEO / Interim CFO	Complete – minuted above
	Provide an explanation to the Directors of CMA Ltd if a re prior year adjustment if necessary	Interim CFO / Vice-Chair A&R	Complete
	Report to Board on sub-contracting audit recommendation	Interim CFO / Chair of A&R	Complete – A&R report to the Board (14/12)
	Review whether to postpone Key Financial Controls internal audit in the context of new COO / Finance Director appointment	Audit Committee	Carry forward – agenda item March 2023
	New standing agenda item on 'Sector Updates' (and Board where appropriate)	Interim CFO	Complete (diarised from March 2023)
	New standing agenda item on sub-contracting assurance	Interim CFO	Complete (diarised from March 2023)
	RSM Funding Assurance – report at the next meeting	Interim CFO	Complete - agenda item 3.1
	At a future meeting, consider how to apply Risk Appetite as part of the audit planning process	Interim CFO	Carry forward to March 2023
	Deep dive on People Risk at the March 2023 meeting	Interim CFO	Carry forward to March 2023

3.0 2021/22 ASSURANCE

3.1 Funding Assurance Review 2021/22 (previously circulated as Paper 3.1)

The funding assurance report was published by RSM in August 2022 and included:

- 2 high priority actions
- 6 medium priority actions
- 7 low priority actions

It is overall a positive report and since August, most actions have been completed including one of the high priority actions (the second high priority action will be completed in January and February 2023).

The Committee noted the report and approved the management responses.

3.2 Draft Financial Statements 2021/22

a) External Audit - Post Audit Management Report for year ending 31st July 2022 (previously circulated as Paper 3.2A)

Hugh Swainson highlighted key points from the report and answered questions from Committee members.

General

- Governors are aware that there were significant delays to the preparation of the financial statements and the provision of audit information due to a variety of factors including staff absence at the College however the submission deadline should be met.
- There are some final checks and proof reading to be completed. Governors agreed that the draft accounts would be presented to the Board as planned tomorrow with a recommendation to delegate authority to Alan Cook and Richard Bartlett-Rawlings to approve the final version for signing.

Action1: Miranda Coles / Alan Cook

Audit Opinion

The expected audit opinions are:

- Financial Statements audits of the College and its subsidiaries - unqualified audit opinions
- Regularity assurance - unqualified audit opinion
- Teachers' Pension Scheme audit - no exceptions noted

Financial Performance and Going Concern

- The 'operational' surplus for the year was £1.202m (FY 2021 £1.293m) which was better than budget (£423k).
- Net current liabilities were £1.799m. The College is debt free.
- In the accounts (item 3.2B) 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. 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 including the three-year forecasts submitted to the ESFA.
- The Group's consolidated reserves have increased by £34.191m (FY2021 £4.391m decrease) providing net assets of £12.683m (FY2021 £21.509m liabilities) at the balance sheet date.

Key Audit Adjustments

- LGPS (£33.171m) increased inflation
- Removal of Activate Learning's buildings (Oxford and Reading) from IoT assets (£4.880m). This is now disclosed as an Agency agreement in the accounts.
- Bursary liabilities £426k. There was a large bursary carry forward.
- Restatement of CMA Accounts.
- Capital Accruals (£1.572m)

Audit recommendations

- Six Priority B (medium priority) relating to:
 - Year-end processes
 - Bursaries
 - Incomplete personnel records
 - Expenditure authorisation
 - Subsidiary processes

- Code Makers Academy
- One Priority C (low priority) relating to:
 - Reporting staff numbers

All recommendations have been accepted by management and the Committee approved the management responses.

Risks

The risks which were identified in the pre-audit planning were reviewed during the audit:

- Coronavirus and going concern.
- Income recognition
- Management override of controls.
- Capital Projects (including Activate Learning's buildings at Oxford and Reading)
- Related party transactions
 - the list in the Financial Statements is potentially over cautious; Miranda Coles will review.
- Subsidiary companies.
 - The potential VAT issue raised last year has been addressed. As both CMA and MKCC are solely employment vehicles, DfE consent to the Letters of Support is not required. The wording of the Letters of Support will be amended to clarify that the College has '*no intention of ceasing the existing arrangements to support*' CMA and MKCC.
- Regularity
- Accounting Estimates

Local Government Pension Scheme (LGPS)

The pension liability on the balance sheet has dramatically reduced this year (which is the national picture), due to discount rates increasing and has also been adjusted for recent increases in inflation.

Teachers' Pension Scheme Grant

- The liability on the balance sheet in relation to the TPS grant has increased to £1.503m (an in-year increase of c.£84k). The bulk of the funds relates to a period when the prison contract was much higher, and the College has no information on clawback. A cautious approach has been taken but this liability is having a significant adverse impact on the College's financial position (current ratio). Other colleges do not adopt this approach.
- The new prison contracts relating to Fosse Way and Lot 8 will result in a significant increase in staff numbers so the liability could reduce.

Governors agreed that this needs to be resolved.

Key Financial Ratios

- The College's 2022 key financial ratios were compared to Buzzacott colleges (2022) and sector benchmarks (2021).

Other Matters

- Based on the current ratio, EBITDA and borrowing as a percentage of income, the statutory financial statements indicate that the College would receive a financial health score of 180 (Category 'Good') for the period ending 31st July 2022.

- There are proposed changes to the financial health calculator so that only the current ratio and EBITDA will be included. This could result in the College being graded as 'requiring improvement'.
- The match funding contribution (£3.7m) for the CTF project poses a risk that the College may move to a financial health score of 'requiring improvement' under the current calculation. In this event, the Board would need a recovery plan demonstrating that the dip in financial health was a managed and short-term strategy.

The Committee requested more information on the strategies to retain a financial health score of 'good' for discussion with the Board.

Action 2: Miranda Coles

The Committee reviewed the External Auditor's Post Audit Report for the year ended 31 July 2022 and recommended this to the Board for approval

b) Draft Report and Financial Statements 2021/22 *(previously circulated as Paper 3.2B)*

Miranda Coles highlighted:

- Financial performance was discussed in 3.2A.
- The narrative has been extensively updated and provides a good overview of the Group.
- Depreciation is 80 years for some buildings
- A reconciliation between the management accounts and Financial Statements will be shared with the Board.
- The financial statements are a solid starting point for the 2022/23 audit.

The Committee reviewed the draft Report and Financial Statements for the Year Ended 31 July 2022 and recommended these to the Board for approval (subject to final proof reading)

c) Draft Representation Letter 2021/22 *(previously circulated as Paper 3.2C)*

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; it is standard wording.

The Committee reviewed the draft College Representation Letter for the year ended 31 July 2022 and recommended this to the Board for approval

3.3 Subsidiary Companies 2021/22 (Going Concern and Representation Letters)

Going Concern CMA and MKCC *(previously circulated as Papers 3.3A)*

The Directors of The Code Makers Academy Ltd (CMA) and Milton Keynes College Commercial Ltd (MKCC) approved the going concern statements at the Board of Directors meeting on 19th December, subject to amendments to the wording of the Letters of Support.

Representation Letters CMA and MKCC *(previously circulated as Papers 3.3B and 3.3C)*

The Directors of CMA and MKCC approved the representation letters at the Board of Directors meeting on 19th December.

The Committee noted Going Concern and draft Representation Letters for subsidiaries as recommended by the Finance Group.

3.4 Subsidiary Companies 2021/22 (Financial Statements) (previously circulated as Papers 3.4A, 3.4B, 3.4C and 3.4D)

Miranda Coles outlined the position in relation to the four wholly owned subsidiaries.

In addition to the matters reported in item 3.3 above, at the Board of Directors meetings, held on 19th December 2022, the respective Directors of the subsidiaries had:

1. Approved the Statutory Accounts for FY2022 subject to feedback given at the meetings:
 - The Code Makers Academy Limited (CMA)
 - MKC Commercial Limited (MKCC)
 - Prison Education Training Services Limited (PETS) (dormant)
 - Manpower Forum (MK) Limited (dormant) (MFMK)
2. Resolved to dissolve PETS Ltd subject to Audit & Risk Committee and Corporation approval.
3. Resolved to dissolve MKMF Ltd subject to Audit & Risk Committee and Corporation approval

The Committee reviewed the action plans relating to the subsidiary companies.

The Committee:

- ***Reviewed the financial statements for the subsidiary companies and recommended these to the Board***
- ***Recommended to the Board that PETS and MKMF be dissolved.***
- ***Noted the status of matters outstanding relating to the subsidiary companies and agreed the actions***

4.0 Governance

4.1 Committee Annual Report to the Board 2021/22 (draft) (previously circulated as Paper 4.1)

The draft report was approved at the meeting on 24th November and has been updated to reflect matters brought to this meeting. A copy of the final report will be submitted to the Board on 20th December and sent to the ESFA with the financial statements.

The Committee reviewed and approved its Annual Report for 2021/22 up to the date of this meeting

CONSENT AGENDA

The following items were approved by consent / without discussion:

- 5.1 Fraud Assessment (previously circulated as Paper 5.1)**
The Committee noted the Fraud Assessment

NEXT MEETING: 23rd March 2023

A handwritten signature in black ink, appearing to read 'Alan Cook', with a long horizontal flourish underneath.

Approved 23 March 2023
Chair of Audit and Risk – Alan Cook