

# MILTON KEYNES COLLEGE

## AUDIT & RISK COMMITTEE

Minutes of the meeting held on 28<sup>th</sup> November 2019, G6, Chaffron Way Campus,  
08:30 to 11:07

Committee Members	Attendance Record 2019-2020	Present at this meeting
Richard Bartlett-Rawlings (joined 3/10/19)	1 of 1	Richard Bartlett-Rawlings
Alan Cook (Chair)	1 of 1	Alan Cook
Peter Cox	1 of 1	Peter Cox
Luke Ferebee	1 of 1	Luke Ferebee
Mat Gotkowski	1 of 1	Mat Gotkowski
Kuldip Kaur	1 of 1	Kuldip Kaur
Total percentage attendance this meeting	100%	5/5
Total percentage attendance year to date	100%	5/5

**In attendance:** Karen Brown, Imelda Galvin (in part), Marc Gillham (in part), Will Gordon (in part), Steve Lake, Elucidate (in part), Julie Mills (in part), Hugh Swainson, Buzzacott (in part)

### CONFIDENTIAL SESSION

1.0 Confidential Minutes A

***Julie Mills, Imelda Galvin, Marc Gillham and Will Gordon joined the meeting***

The Committee Chair advised that there will be a confidential session at the start of every A&R Committee meeting as a matter of routine.

### PROCEDURAL

2.0 The Committee ratified the election of Alan Cook as Committee Chair and Richard Bartlett-Rawlings, as Committee Vice-Chair for 2019/20 (previously agreed by email).

Mat Gotkowski, Alan Cook and Richard Bartlett-Rawlings have joined the Committee since June 2019.

The Committee Chair reminded management that papers are expected 7 days before the meeting unless permission has been given for papers to be issued late.

3.0 Apologies: n/a

4.0 Richard Bartlett-Rawlings has a declared interest in item 6.5.

**5.1 The Committee approved the minutes (previously circulated as Paper 5.1A and Confidential Paper 5.1B)**

Matters arising are included in Annex 1

**2018/19 ASSURANCE**

**6.1 Internal Audit 2018/19 (previously circulated as Paper 6.1)**

Steve Lake advised that two audits relating to the 2018/19 IAS plan had been completed and published:

**6.1.1 Prison Education**

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 implemented). The report has been accepted by College management.

**6.1.2 Health and Safety Management**

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

There was 1 'fundamental' recommendation, 10 'significant' recommendations and 2 'merits attention' recommendations. The report has been accepted by College management.

The follow up report (item 7.1.1) report provides assurance that all the health and safety recommendations relating to The Graduate Salon have been implemented. The remaining health & safety recommendations will be followed up later and reported in March 2020.

Steve responded to questions from Committee members:

***How do you ensure that staff do not revert to old practices?***

Management are responsible for implementing the controls. Imelda Galvin added that the health and safety processes were in place but were not being followed. The Graduate Salon is under new management.

***How are recommendations followed up?***

When management report that a recommendation has been implemented, the internal auditor will review the evidence and confirm this to be the case in the 'follow-up' e.g. paper 7.1.

***How is the priority of recommendations determined?***

Fundamental means that urgent action is required, significant means that controls need to be addressed but not urgently and merits attention refers to minor action.

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

**6.2 Internal Audit Satisfaction Questionnaires (previously circulated as Paper 6.2)**

***The Committee noted the satisfaction questionnaires relating to item 6.1***

### 6.3 Internal Audit Annual Report and Assurance Statement 2018/19 *(previously circulated as Paper 6.3)*

Steve Lake confirmed that all the planned audit work had been completed and any concerns had been addressed in year. The Committee's attention was drawn to the unqualified audit opinion.

*"Based on the internal work carried out in 2018/19, 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 15 reviews during 2018/19:

- 5 reviews had received satisfactory assurance
- 2 reviews had received moderate assurance
- 3 reviews had received limited assurance
- 1 review had received no assurance
- No opinion was given for 4 reviews

***The Committee reviewed and approved the Internal Auditor's annual report and assurance statement for the year ending 31 July 2019 and recommended this to the Board for approval.***

### 6.4 Draft Financial Statements 2018/19

#### a) External Audit Post Audit Report for year ending 31<sup>st</sup> July 2019 *(previously circulated as Paper 6.4A)*

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

- The audit went well and Buzzacott anticipate issuing an unqualified audit opinion on the financial statements and regularity.
- Items which are outstanding are normal for this stage of the process, including the ESFA funding reconciliation (which is expected shortly).
- The operational surplus for 2018/19 was £798k against a budgeted surplus of £12k. (The budgeted surplus for 2018/19 is incorrectly stated in the report and will be amended).
- £559k of the operational surplus relates to release of accruals made in the prior year for terminating the OLASS contracts and without this release, the operating surplus would have been £239k. Will Gordon added that the accruals were based on the assessed risk at the time and the prisons lost and won were different to those in the OLASS 4 contract.
- Net current liabilities were £1,842k

- Due to revaluation of the LGPS (Local Government Pension Scheme), the total consolidated reserves decreased by £8,714k providing net liabilities of £5,516k at the balance sheet date. The College has adjusted the actuary's assumptions relating to the LGPS and the College is at the more 'optimistic' end of the scale compared to the sector.
- The College's financial ratios were compared to sector benchmarks. The current ratio, payroll costs and cash days in hand are unfavourable compared to the 'General FE Colleges' benchmark however, the College's borrowing as a percentage of income is much lower. The new Prison contract has had a £1,300k negative impact on cash. The Board is closely monitoring Financial Health scores.
- In the statutory accounts (item 6.4B) 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:
  - Timely management accounts
  - Current cash flow position and future cash projections
  - College budgets and regularly updated forecasts
- No control issues were identified. Adjustments relate to timing differences.
- Key risks are highlighted in the report.
- There are new disclosures in the financial statements relating to senior pay costs.
- The report draws attention to scenarios where regularity concerns may arise (included in the Post 16 Audit Code of Practice) which is covered by item 9.2 below.

Imelda Galvin responded to questions from Committee members:

***Is the LGPS position a concern?***

The Local Government Pension Scheme (LGPS) is the dominant pension scheme. It swings and last year was positive (which had a positive impact on the Balance Sheet). It is revalued every three years. The College cannot control it and the sector tends to ignore it (e.g. the ESFA does not include it in the calculations). A College can be asked to contribute more (which is a risk).

***How do the accounts compare to other colleges?***

The content and format is set out in the ESFA Accounts Direction Handbook so all college accounts look the same.

***Do OfS (Office for Students) regulations apply?***

Yes, because the College has HE (Higher Education) students. Numbers are low but will grow when the IoT opens. The OfS regulations are demanding.

***When will the IoT subsidiary company start trading?***

When it starts to receive its own income and currently there is no mechanism for this. The DfE insisted on the IoT being a separate legal

entity but it will be a phased approach. The College is at the pre-award stage.

***The Committee reviewed the External Auditor's Post Audit Report for the year ended 31 July 2019 and recommended this to the Board for approval, subject to the amendment noted above***

**b) Draft Report and Financial Statements 2018/19** (previously circulated as Paper 6.4B)

The Going Concern statement is positive.

Governors requested the following amendments:

- Stronger links between the section on 'Principal Risks and Uncertainties' and the College's Strategic Risk Register.
- Reference to recruiting new A&R Committee members

**Action 1: Will Gordon**

Governors will feedback any further comments by 1<sup>st</sup> December.

The Committee Chair asked to review an earlier iteration of the Report and Financial Statements next year.

***The Committee reviewed the draft Report and Financial Statements for the Year Ended 31 July 2019 and recommended these to the Board for approval, subject to the feedback given at this meeting***

**c) Draft Representation Letter 2018/19** (previously circulated as Paper 6.4C)

This letter contains standard wording; it is an important letter from the Board to the auditors. Post balance sheet events may include signing the IoT contracts depending on the timing.

***The Committee reviewed the draft Representation Letter for the year ended 31 July 2019 and recommended this to the Board for approval***

**6.5 Assurance on the management and quality of data** (previously circulated as Papers 6.5A and 6.5B)

The College was not selected for an external audit of 2018/19 learner records.

Marc Gillham referred to the funding assurance review conducted in April which related mainly to paperwork for apprenticeships. The management response is presented in Paper 6.5B. This was an assurance review commissioned by the College (not an audit) and the information was held by the College but in the wrong place. Had this been an audit, the College could have produced the information but the review has allowed the College to interpret the rules and address the issues. Karl Bentley of RSM provides the College with additional insight and will be invited back in March /April 2020 to conduct another funding assurance review. Karl will attend the A&R Committee meeting if members would find that helpful to answer questions about the College's performance versus the sector.

Other colleges are now contacting the College for advice on best practice relating to apprenticeships.

Marc confirmed that the College is not just focusing on the matters raised in the review but is looking at the accuracy of data more broadly.

Other funding streams which require attention are: devolution funding from the Greater London Authority and HE data sets.

***The Committee noted the assurance on the management and quality of data and approved the management response in the Funding Assurance Report***

## 2019/20 ASSURANCE

### 7.1 Internal Audit Progress Report 2019/20 (previously circulated as Paper 7.1)

Steve Lake presented the internal audit progress report which contains a summary of the work completed to date; the report includes recommendations and management responses. Two audits have been completed and published (see below).

On the recommendation of management, the Committee Chair has agreed that the 8 contingency days in the 2019/20 plan may be used for Health & Safety Follow-up (see 7.1.1) and Catering Stock Control. There is no specific identified risk prompting the need for the stock control audit but it is an area which has not been tested in five years.

Following the FE Diagnostic Assessment Report, the Finance Group requested assurance on the accuracy of financial information reported to the Board. This will be included within the scope of the planned 'Budgetary Control and Reporting' audit.

#### 7.1.1 Health & Safety Follow-up (The Graduate Salon)

The report confirms that the five previous recommendations relating to The Graduate Salon have been implemented.

#### 7.1.2 College Nursery

The opinion is that the systems and controls provide '**moderate assurance**'. There was one 'significant' recommendation and the report has been accepted by College management. The recommendation has already been implemented.

#### 7.1.3 Vista Training Solutions

As reported at the last meeting, following student complaints there were concerns about this former sub-contracted provision. The relevant files were obtained from Vista and have been reviewed internally including sample testing by Steve Lake and Marc Gillham. The review of the files did not raise any immediate concerns as there was evidence in the files that the complainants had received student loans. This evidence has been provided to the complainants and they have not made further contact.

Although the focus was on the Retail Knowledge course, the sample testing included other courses and other centres. There were no obvious concerns with signatures. There was evidence of some poor practice but no evidence of malpractice. The files will be retained in College in case there are further developments.

**The Committee:**

- **Noted the internal audit progress report and approved the management responses**
- **Noted the verbal assurance relating to Vista Training Solutions.**

**7.2 Internal Audit Performance Survey Questionnaire** *(previously circulated as Paper 7.2)*

**The Committee noted the Performance Survey Questionnaires relating to the audits included in 7.1**

**7.3 Progress in implementing recommendations from previous audit reports** *(previously circulated as Paper 7.3)*

Will Gordon updated the Committee on the progress in implementing previous audit recommendations. There are 5 outstanding recommendations as at November 2019.

The Committee will focus on actions which are overdue and to assist this, implementation dates will be added to this report going forward. The position of the Audit & Risk Committee is that no actions should be overdue except in exceptional circumstances (which the Committee will need to review and approve).

**Action 2: Will Gordon**

**The Committee reviewed the report and noted progress**

**7.4 Risk Management & Board Assurance** *(previously circulated as Papers 7.4A and 7.4B)* *The IOT Risk register was tabled at the meeting.*

Imelda Galvin outlined the College's approach to risk management for the benefit of new members. There are nine strategic risks of which three are currently red (highest priority) and six are amber (medium priority). The Committee reviewed the risks.

Governors requested:

- Action owners to be named
- Assurance pre and post the mitigating actions

Steve Lake, who attends the College's Risk Management Group meetings, confirmed that it is a very open and transparent process and the arrangements for risk management are working well.

Sub-contracting

The College has been winding down sub-contracting and for 2019/20 there is only one remaining sub-contractor for HE (CECOS). Although sub-contracting provides an income stream, the cost of mitigating the risks can outweigh the financial benefit. Imelda Galvin explained that sub-contracting is high risk but can be used to develop specific expertise however, the College is not sufficiently developing its own HE expertise and it requires a different approach.

Governors have previously raised concerns about sub-contracting. Due to the risks involved, the Executive recommendation is to withdraw from all sub-contracting, in a controlled way. The Committee members supported this approach.

## OfS Reportable Event

Imelda Galvin advised the Committee that an external investigation involving a former HE sub-contractor which will be reported to the OfS. The College gave notice to this sub-contractor in 2018. There is no risk of the College incurring financial penalties and the COQG is monitoring developments.

### ***The Committee:***

- ***Approved the recommendation to withdraw from sub-contracting in a controlled way***
- ***Recommended the Strategic Risk Register to the Board for approval***

## **7.5 GDPR (previously circulated as Paper 7.5)**

Marc Gillham updated the Committee on GDPR. One complaint was made to the ICO relating to an internal matter. The Risk Management Group will review GDPR in December.

### Legitimate Interest

The College is recommending that where a student is aged 19 or under, information is shared with parents based on 'legitimate interest'. This is not in accordance with advice originally received from Howes Percival (College solicitors) however it is the practice adopted by most colleges. Not contacting parents exposes other risks e.g. quality of education, managing student progress, safeguarding.

In future, explicit consent will be obtained at enrolment as it will be written into the privacy statement.

***The Committee noted the assurance on GDPR and agreed with the recommendation subject to further advice from Howes Percival.***

## **7.6 Fraud Policy (previously circulated as Paper 7.6)**

Will Gordon advised the Committee that he had rewritten the policy based on examples from the sector. The policy will be supported by a process (which may not be published). The Head of Governance has already given feedback based on the new Fraud Framework in the Post-16 Audit Code of Practice dated February 2019.

Will Gordon will recirculate the draft to Audit & Risk Committee members prior to the draft policy being presented to the Board for approval.

**Action 3: Will Gordon**

The Committee Chair requested that future changes to policies are tracked for ease of reference. Committee members will give any further feedback by 2<sup>nd</sup> December.

***The Committee noted the draft policy and agreed to give feedback by email***

**7.7 ESFA Letters of 23<sup>rd</sup> October 2019 and 13<sup>th</sup> November 2019** *(previously circulated as Papers 7.7A and 7.7B)*

The letters confirm that the College's Financial Health is 'Requiring Improvement / Satisfactory' and the College continues to be in early intervention. The Board and Finance Group are monitoring the financial plan.

Imelda Galvin confirmed that the College's Finance Pack includes the ESFA graphs.

***The Committee noted the ESFA letters***

## **GOVERNANCE**

**8.1 Committee Annual Report to the Board 2018/19 (draft)** *(previously circulated as Paper 8.1)*

The draft report outlines the work of the A&R Committee for the period August 2018 to November 2019 including matters covered at this meeting.

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

Karen Brown drew attention to the final paragraph which 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 2018/19 for submission to the Board with the financial statements***

## **CONSENT AGENDA**

The Consent Agenda was approved without discussion:

**9.1 Regularity Self-assessment questionnaire (SAQ)** *(previously circulated as Paper 9.1)*

***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)***

**9.2 Self-Assessment against Annex C of the Audit Code of Practice Summary of regularity concerns** *(previously circulated as Paper 9.2)*

***The Committee approved the self-assessment against Annex C***

**9.3 Self-Assessment against the ESFA recommendations following the Bourneville College investigation** *(previously circulated as Paper 9.3)*

***The Committee noted the self-assessment***

**9.4 Self-Assessment against the ESFA letter of October 2019 relating to sub-contracting** *(previously circulated as Paper 9.3)*

***The Committee noted the self-assessment***

**9.5 Value for Money Statement 2018/19, KPIs for 2019/20 and Value for Money Policy (previously circulated as Papers 9.5A and 9.5B)**

*The Committee approved the Value for Money Statement for 2017/18, KPIs for 2018/19 and the Value for Money Policy*

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

*The Committee noted that the Search & Governance Committee, at its meeting on 30<sup>th</sup> September 2019, agreed that the Board was compliant in all areas of the Code*

**9.7 Board Members' and Senior Post-holders' Expenses, Gifts and Hospitality 2018/19 (previously circulated as Paper 9.7)**

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

**9.8 College Financial Regulations (previously circulated as Paper 9.8)**

The Committee received 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 & Competitive Tendering
- Section 11: Research Projects and External Contracts
- Section 14: Risk Management
- Annex 1: Post Holder Titles and Groups

*The Committee reviewed the six sections and recommended these to the Board for approval*

**9.9 Committee Performance – self-assessment 2018/19 (previously circulated as Paper 9.9)**

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

**9.10 Terms of Reference 2019/20 (previously circulated as Paper 9.10)**

*The Committee recommended the Committee's Terms of Reference to the Board for approval*

## **10 ANY OTHER BUSINESS**

None

## **NEXT MEETING: 19<sup>th</sup> March 2020**

*Alan Cook thanked Steve Lake and Hugh Swainson for attending and they left the meeting*

**11.0 Confidential Minutes B**

## Matters arising

Date raised	Action	Status
20th June 2019	1. The final version of the Estates Strategy will be available by the end of August for approval (previous audit recommendation)	On hold pending IoT decisions (IG)
	2. Funding Assurance Review – circulate the management response by the end of June.	Included in item 6.5
	3. Circulate the operational Risk Register to the Committee for information.	In progress – one example has been circulated and the full Risk Register will be circulated by 24.12.19
	4. Update the Strategic Risk Register with names of risk owners and dates.	Agenda item 7.4
	5. Add cyber security to the Strategic Risk Register.	Agenda item 7.4
	6. Add a statement to the IAS Annual Plan on how Elucidate will provide assurance on risk management through its other work	Done and Complete
	7. Add GDPR to the IAS plan alongside cyber threats. It may be possible to include this in the scope of the proposed IT Network Controls Audit.	Agenda item 7.4
	8. The Committee asked for assurance that there is an effective Business Continuity Plan in place and that simulations have been carried out. There is an audit planned for 2020/21. The Committee asked that the College consider running simulations affecting operational issues (such as inability to access one site and the practical implications).	Carry forward. There is a plan and simulations will be diarised for this cycle (IG)
	9. The data in the ESFA Dashboard will be produced for the Board and the Finance Group in graphical format.	Carry forward. The finance pack is being reviewed with the FinG
	10. The Committee asked the Finance Group to consider the issues raised in the Dashboard and challenge the budget assumptions for 2019/20.	Complete