

## MILTON KEYNES COLLEGE

### AUDIT & RISK COMMITTEE

**Part 2 Minutes of the meeting held on 30<sup>th</sup> November 2020, MS Teams,  
11:30 to 13:45**

Committee Members	Attendance Record 2020-2021	Present at this meeting
Richard Bartlett-Rawlings	1 of 1	Richard Bartlett-Rawlings
Alan Cook (Chair)	1 of 1	Alan Cook
Peter Cox	1 of 1	Peter Cox
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, Marc Gillham, Will Gordon, Julie Mills  
Simon Cox, Elucidate (in part), Hugh Swainson, Buzzacott (in part)

#### CONFIDENTIAL PART 1

1.0 Confidential Minutes 1

#### PART 2 PROCEDURAL

2.0 The Committee ratified the election of Alan Cook as Committee Chair and Richard Bartlett-Rawlings, as Committee Vice-Chair for 2020/21 (previously agreed by email).

2.0 As Steve Lake had sent apologies, Simon Cox is attending from Elucidate. All Committee Members were present.

Thanks were expressed to Luke Ferebee who has completed his term of office and stepped down. Kuldip Kaur is serving a second term.

4.0 Richard Bartlett-Rawlings has a declared interest in item 6.4 as RSM has produced the report; Richard has no influence over this report and the work with RSM pre-dates Richard's appointment to the Board.

#### MINUTES OF LAST MEETING: 18th June 2020

5.1 ***The Committee approved the minutes (previously circulated as Paper 5.1)***  
Matters arising have all been completed (minuted in Annex 1)

*Simon Cox and Hugh Swainson were welcomed to the meeting*

## 6.1 Internal Audit 2019/20 (previously circulated as Paper 6.1)

Simon Cox advised that four audits relating to the 2019/20 IAS plan had been completed and published:

### 6.1.1 Budgetary Control

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 College management.

### 6.1.2 Sub-Contracting

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 College management.

The Committee referred to questions raised at the Board meeting on 11<sup>th</sup> December, relating to a sub-contracting contract, which are being addressed (discussion minuted as confidential).

### 6.1.3 Curriculum Planning

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

There was one 'fundamental' and three 'significant' recommendations. The report has been accepted by College management.

Imelda Galvin added that the fundamental recommendation related to efficiency of staff utilisation which was also highlighted in the Tribal benchmarking review. In response, the College has established a project to address the issues raised in both reports and this will be a focus for the Finance Group (which requested the external benchmarking report). The aim of the project is to develop a more efficient and effective curriculum delivery model to allow more investment in the student experience. The project outcomes will be the curriculum plan for 2021/22 and a 3-5 year plan, to review roles, responsibilities and pathways to deliver the curriculum vision (in the context of the strategic review). The expected FE White paper could also impact on funding / how FE operates. Normally the outline curriculum plan for 2021/22 would have been brought to the Board this term but due to COVID and other changes, this has been deferred to the following Board meeting (February 2021). The first iteration of the 2021/22 budget which will be presented at the March Board meeting.

### 6.1.4 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 College management.

***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 2019/20** *(previously circulated as Paper 6.3)*

Simon Cox confirmed that all the planned audit work had been completed and any recommendations will flow through to the follow up work i.e. testing that recommendations have been implemented.

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

*"Based on the internal work carried out in 2019/20, 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 9 (11) reviews during 2019/20 (2018/19 in brackets):

- 5 reviews had received satisfactory assurance (5)
- 3 reviews had received moderate assurance (2)
- 1 review had received limited assurance (3)
- No reviews received no assurance (1)
- Overall there had been:
  - 1 fundamental recommendation
  - 9 significant recommendations
  - 2 merits attention recommendations

***The Committee reviewed and approved the Internal Auditor's annual report and assurance statement for the year ending 31 July 2020 and recommended this to the Board for approval.***

**6.4 Assurance on the management and quality of data: RSM Report on Apprenticeships** *(previously circulated as Paper 6.4)*

The College was not selected for an external audit of 2019/20 learner records.

Marc Gillham referred to the funding assurance review (designed to mirror an ESFA audit) on apprenticeship records. The College has been engaging Karl Bentley of RSM for some years as Karl has additional insight through his work on behalf of the ESFA. This assurance review was commissioned by the College as the rules relating to apprenticeships are continually changing; a similar review of apprenticeships records was conducted last year. There was no attempt to correct any potential errors in the data before it was passed to Karl for review.

Good progress has been made since last year and only one recommendation was raised as a high risk. Based on this review, the College is confident there would

have been no issues should the College have been selected for an ESFA external audit.

Most recommendations have now been implemented (and none are overdue). Some adjustments to processes and internal auditing within the MIS team have been made.

Committee members asked questions to which Marc responded:

***What action was required to address the high-risk recommendation?***

Last year, enrolments were processed by a central enrolment team, but they did not process the supporting paperwork i.e. it became a two-step process. The entire process is now the responsibility of the apprenticeship team.

***Do operational teams responsible for capturing data require more training?***

Teams are being constantly upskilled e.g. last week they attended external training. The errors identified were not systematic i.e. it was a missing piece of information relating to an Individual hence the focus on second level checking. There is a significant amount of documentation for which there is a checklist and we are already seeing the impact of moving enrolments to the specialist team

***How were the files selected?***

RSM selected the files randomly (as would occur in an external audit).

***Does the paperwork have to be completed within a specific time and does this create pressure on resources?***

Yes for apprentices. We are working with the funding agencies to explore the use of technology e.g. DocuSign. It is a big administrative task, and we are continually reviewing resources.

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

## **6.5 Draft Financial Statements 2019/20**

### **a) External Audit Post Audit Report for year ending 31<sup>st</sup> July 2020 (previously circulated as Paper 6.5A)**

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

#### Audit Opinion

- The audit went well in the context of remote working.
- Buzzacott anticipate issuing an unqualified audit opinion on the financial statements and regularity.
- There are some final checks to be completed including additional testing of holiday pay accrual, a final College assessment on going concern and the management accounts at time of sign off. There was reference to a paper on going concern at the last meeting, but the College concluded that the usual information provided was sufficient.

## Financial Performance and Going Concern

- The 'operational' surplus for the year was £1.4m (budget £228k). This included wrapping up the previous OLASS contract.
  - Due to revaluation of the LGPS (Local Government Pension Scheme), the total consolidated reserves decreased by £11.6m providing net liabilities of £17.1m at the balance sheet date.
- Net current liabilities were £1,867m including a large holiday pay accrual.
- In the statutory accounts (item 6.5B) 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. To support this statement, auditors recommend that governors should review on a regular basis:
  - Student Numbers data
  - Timely management accounts
  - Current cash flow position and future cash projections
  - College budgets and regularly updated forecasts

## Other Matters

- Key audit findings
  - The financial statements are in line with the ESFA's Accounts Direction Handbook.
  - Accounting policies, estimates and disclosures are compliant.
  - There were no audit adjustments and no internal control weaknesses.
- Previously identified key risks / issues for the audit were reviewed and reported.
- The College received a TPS uplift grant of £1.49m, of which the college has recognised £0.84m as income, with the remaining balance of £0.65m included as a creditor on the balance sheet. The grant was calculated on the OLASS4 staff numbers. There has been no guidance on clawback.
- There are additional questions in the Regularity Self-Assessment Questionnaire (Paper 9.1) relating to COVID; the Post 16 Audit Code of Practice for 2019/20 was published in July.
- Related Party Transactions have been disclosed.
- The College's 2020 key financial ratios were compared to Buzzacott colleges (2020) and sector benchmarks (2019). 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 and EBITDA is in line with the benchmark.

## Local Government Pension Scheme (LGPS)

- The College's LGPS assumptions relating to the LGPS are reasonable. The salary increase assumption has been agreed at 2% despite the average across the sector being 2.9%. The College has

requested that the actuary use bespoke life expectancy assumptions, which are approximately one year shorter than the average across the sector.

### Holiday Pay

- The holiday pay accrual has increased. This is an estimate as the College is unable to extract accurate data from its HR information system showing the untaken annual leave for each member of staff. The College has made an assumption giving an accrual of £1.54m (£0.5m last year). Additional testing has been requested.

Imelda Galvin responded to questions from Committee members:

#### ***Is the College obliged to return the £0.65m relating to the TPS grant?***

There is no clarity hence the College has provided for this.

#### ***What is the Prison Education Framework exceptional payment of £860k (c5% of the annual contract value)?***

The College has received confirmation that the prison education core funding for the year will be paid, however has not received confirmation regarding the final 5% of the annual contract value (approximately £860k).

#### ***Is the holiday pay a true liability?***

The holiday year end is July, but many teaching staff take holidays in August. Due to COVID, staff were unable to take leave in the usual way, hence the liability is greater than last year. The College is confident this is being managed and reducing and staff are being encouraged to take leave. There is no plan to pay staff for leave not taken. It is an accounting transaction and not likely to become a real liability.

Hugh Swainson confirmed that this was common position across the sector however it does affect the current ratio / ESFA score.

#### ***In terms of the financial health score, how many points does this liability represent? Will the new HRIS be able to report on leave not taken?***

Possibly c10 points. Yes, the HRIS will record holiday accrual but with other priorities, it may be 12 months before it produces all the data needed.

#### ***How are other colleges managing the LGPS risk?***

Hugh Swainson responded that it is a difficult risk to manage. The tri-annual revaluation took place this year which drove the rates from 1<sup>st</sup> April. The assumptions in the financial statements are harsher so there is a bigger liability. The College could be asked to contribute higher contributions (which is a risk) which should be monitored.

Imelda added that all colleges have this risk and the actuaries have different assumptions based on the local authority. In the past, the College has challenged the assumptions which were not reflecting the College's own data e.g. pay rise increases and also life expectancy (based on ONS statistics). The LGPS is volatile and flips between deficit and surplus; two years ago it was surplus (which had a positive impact on the Balance Sheet). The College cannot control it and the sector tends to ignore it (e.g. the ESFA does not

include it in the calculations). Prison liabilities are transferred in and out when there is a change to the prison contract.

The College could be required pay higher contributions (which is a risk). Pension contribution assumptions are considered in the budget planning.

***The Committee reviewed the External Auditor's Post Audit Report for the year ended 31 July 2020 and recommended this to the Board for approval (subject to correction of an error relating to holiday pay accrual n 2019).***

**b) Draft Report and Financial Statements 2019/20** (previously circulated as Paper 6.5B)

Governors gave feedback and agreed to send final comments by the end of the week:

- Ensure the 'principal risks' section aligns to the College's Strategic Risk Register.
- Include a paragraph on the IoT (future development) and Prison Education

**Action 1: Will Gordon**

Will Gordon confirmed there was no risk of income clawback relating to functional skills achievement.

***The Committee reviewed the draft Report and Financial Statements for the Year Ended 31 July 2020 and recommended these to the Board for approval, subject to the feedback***

**c) Draft Representation Letter 2019/20** (previously circulated as Paper 6.5C)

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 draft Representation Letter was reviewed, and members questioned whether it should refer to the Arts1 contract for 2020/ 21 and the current position with the IoT; Imelda Galvin will review this.

**Action 2: Imelda Galvin**

The Representation letter will be reissued to include IoT costs in accordance with Page 12 of the Post-Audit Management Report.

**Action 3: Buzzacott**

***The Committee reviewed the draft Representation Letter for the year ended 31 July 2020 and subject to actions 2 and 3, recommended this to the Board for approval***

## 2020/21 ASSURANCE

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

Simon Cox advised that two audits relating to the 2019/20 IAS plan had been completed and published:

#### 7.1.1 IT Strategy

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

There were two 'merits attention' recommendations. The report has been accepted by College management.

Simon confirmed that cyber risk was included in the IT strategy (no testing took place).

#### 7.1.2 IT Disaster Recovery Strategy

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

There was one 'significant' and one 'merits attention' recommendations.

The report has been accepted by College management.

#### **The Committee:**

- **Noted the internal audit progress report and approved the management responses**

### 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. Since the last meeting, there have been 8 new and 4 completed recommendations. There are currently 9 recommendations outstanding.

One recommendation from the GDPR audit has a revised implementation date and committee members challenged the impact of extending the date from August 2020 to March 2021. Mark Gillham explained that the risk related to data protection impact assessments (DPIA) and assured the Committee that these were in place for all key systems (and were approved through the ISO accreditation). The MoJ asked for these to be reviewed prior to lockdown in March. As there is no risk with the DPIAs, the data sharing agreements have been prioritised over the DPIAs.

The Committee agreed the extension and asked that the history (original date) be reported.

***The Committee reviewed the report, noted progress and a revised implementation date for one recommendation***

#### **7.4 Risk Management & Board Assurance** *(previously circulated as Paper 7.4)*

The Committee reviewed the strategic risk register and noted the level of activity since the last meeting (highlighted in red font) demonstrating that risk is being managed by the College.

Since the A&R Committee meeting in June, the College's Risk Management Group (RMG) has met twice and the minutes were included in Paper 7.4. Matters reviewed by the RMG included COVID and business continuity, a centralised approach to policy management and assurance relating to denial service attacks on the College's IT systems. There are eleven strategic risks of which two are currently red (highest priority) and nine are amber (medium priority).

A list of policies overseen by this Committee will be brought to the next meeting.

#### **Action 4: Imelda Galvin**

As requested by the Committee, Imelda Galvin, Richard Bartlett-Rawlings and Steve Lake had met to consider the internal audit service (IAS) role in risk management to address any potential conflict of interest / perception risk.

It had been agreed that:

- The Internal Audit Plan for 2020/21 will be updated to document Elucidate's role in risk management. Going forward, Elucidate will report to this committee on engagement with the College on risk e.g. attendance at the Risk Management Group meetings; this regular report, which will include matters discussed, advice or recommendations given, will clarify the role of the IAS versus the role of management.

#### **Action 5: Steve Lake / Imelda Galvin**

- The RMG minutes are now correctly recording Elucidate as an advisor and critical friend to the RMG providing challenge and advice (i.e. not a decision maker).

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

- ***Recommended the Strategic Risk Register to the Board for approval***
- ***Approved the proposal relating to risk assurance***

#### **7.5 Data Security / GDPR** *(previously circulated as Paper 7.5)*

Marc Gillham updated the Committee on data security and advised that cyber-attacks (denial of service) have increased. These are an inconvenience for the College but there has been no significant loss of service and there have been no data breaches. Mitigating actions are in place and data security is being increased.

There have been no significant GDPR breaches reported to the ICO. There have been some lower level breaches which have been dealt with appropriately.

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

*Liana Sinclair, Group Head of Estates was welcomed to the meeting*

## **7.6 Business Continuity Plan** *(previously circulated as Paper 7.6)*

Liana summarised:

- The new BCP sets out:
  - Defined roles and responsibilities
  - Clear escalation process
  - COVID processes – developed, reviewed, and renewed with experience of the pandemic.
- Standard terminology has been used e.g. Bronze (operational) Silver (tactical) and Gold (strategic / most serious situations)
- There is some final work to be completed on the appendices, but many systems and processes are already in place. The plan will be subject to ongoing review and development.
- Next steps include training, review and development of department specific plans and simulations (both actual and desktop).

Members asked questions to which Liana responded (with additional input from Imelda and Julie):

### ***Is an annual desktop exercise frequent enough?***

An annual exercise refers to testing for a major emergency; lower level incidents e.g. power outage, will be tested more frequently (both actual and desktop),

### ***Will you be carrying out an actual simulation to test the plan and learn from the process e.g. making the calls to check number are correct?***

There will be a formal disaster simulation test annually.

The plan was triggered recently (and was successful) following a water leak in the ITC at a weekend.

### ***Is there a plan for invacuation e.g. a threat in the grounds?***

The College has (and has tested) a lockdown procedure which will serve as the invacuation procedure for the time being.

### ***Why use the Premier Inn in Watford?***

It is a far enough distance to be outside the risk area. We are looking at a specialist disaster recovery provider in Watford.

### ***Are you satisfied that the plan is sufficiently flexible? What is the default plan if there was a new scenario?***

There are workflows for a range of scenarios, and we are confident these can be adapted to other situations.

In the past, it has been helpful to scenario plan based on key situations e.g. loss of people, loss of a building, loss of information etc irrespective of the cause.

The incident report framework should be helpful but could also include external other agencies including how gold commanders from each institution would work together.

***How will the plan be accessed in the event of a major disaster affecting IT systems?***

Members of the Silver and Gold teams will hold printed copies of the plan and it will also be accessible from a cloud-based server (there is a separate IT recovery plan including back-ups with increasing use of cloud technology).

Members stated it was a good document and requested the following amendments:

- Appendix 8 – remove highlighted text
- Appendix 9c – remove reference to Silbury
- Appendices 11e and 11d – remove the duplicated document
- Reference other agencies in the incident report framework including how gold commanders from each institution would work together.

**Action 6: Liana Sinclair**

***The Committee agreed the draft policy and recommended this to the Board for approval***

*Liana was thanked for attending and she left the meeting*

**7.7 ESFA Letter of 13<sup>th</sup> October 2020 (previously circulated as Papers 7.7)**

The College has moved to Good Financial Health and received confirmation on 13<sup>th</sup> October that the Early Intervention Notice had been lifted. The letter has been previously reported to the Board but included here for noting.

***The Committee noted the ESFA letter dated 13<sup>th</sup> October 2020***

## **GOVERNANCE**

**8.1 Committee Annual Report to the Board 2019/20 (draft) (previously circulated as Paper 8.1)**

The draft report outlines the work of the A&R Committee for the period August 2019 to November 2020 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 2019/20 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)*

See item 10.1 below

***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 received the assurance relating to Annex C***

- 9.3 Assurance relating to anti-fraud (ACoP Annex D)** *(previously circulated as Paper 9.3)*

***The Committee received the assurance relating to Annex D***

- 9.4 Assurance relating to sub-contracting** *(previously circulated as Paper 9.4)*

***The Committee received the assurance relating to sub-contracting***

- 9.5 Value for Money Statement 2019/20, KPIs for 2020/21** *(previously circulated as Paper 9.5)*

***The Committee approved the Value for Money Statement for 2019/20 and KPIs for 2020/21***

- 9.6 Code of Good Governance for English Colleges**

***The Committee noted that the Search & Governance Committee, at its meeting on 16<sup>th</sup> November 2020, agreed that the Board was compliant in all areas of the Code***

- 9.7 Board Members' and ELT Expenses, Gifts and Hospitality 2019/20** *(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 reviewed the following sections of the Financial Regulations:

- Section 2: Responsibility, Delegation & Monitoring
- Section 6: Purchasing & Competitive Tendering
- Section 12: Inventory & Asset Management
- Annex 1 - Post Holder Titles and Groups

***The Committee reviewed the four sections of the Financial Regulations 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 2020/21 (previously circulated as Paper 9.10)**

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

**10 ANY OTHER BUSINESS**

**10.1 Regularity Self-Assessment Questionnaire (Annex A) (Consent item 9.1)**

Will Gordon confirmed that assurance relating to the ESFA's Procurement Policy Notice 02/20 (relating to supplier relief due to COVID) had been discussed with the Finance Group (but not minuted).

**NEXT MEETING: 18<sup>th</sup> March 2021**

*Julie Mills, Imelda Galvin, Will Gordon and Marc Gillham were thanked for attending and they left the meeting*

**Confidential Part 3**

Members and auditors confirmed by email that they had nothing to raise.

## Actions arising from the last / previous meeting(s)

Date raised	Action	Status
18 <sup>th</sup> June 2020	Re going concern – Finance Group to review the paper with the forecasts, cashflow, sensitivities and uncertainties before it is shared with Buzzacott; this Committee should see the paper in November.	Complete - Agenda item 6.5D. The College shared the usual information (previously seen by the Board) and no additional paper was required.
	Circulate the front section of the Financial Statements early if possible	Complete
	Review the terms of reference of the Risk Management Group to ensure the internal auditor's role and responsibilities are clear, transparent and could be held up to scrutiny.	Complete – reported at 7.4
20 <sup>th</sup> June 2019	The final version of the Estates Strategy will be available by the end of August for approval (previous audit recommendation).	Superseded – the Estates Strategy is on the 20/21 audit plan.