

Minutes of a meeting of the Audit Committee held at 1700h on Monday, 27th November 2023 in Room FO27 of the College and by teams

Present: Robert Milburn (Chair); Norma Boyes; Elaine Clinton; Val Pallister; Lee Todd

Apologies: Denise Rollo

Also present: Karen Rae, External Auditor; Karen Wilson, Deputy Principal;
Jane Murray (Clerk)

By teams: Marc Harvey (Internal Auditor)

28/23 Minutes

Resolved – that the minutes of the meeting held on 11th September 2023 be approved and signed as a correct record.

29/23 Declarations of Interest

None received.

30/23 Financial Statements Audit

At the invitation of the External Auditor, the Deputy Principal first gave an overview of the financial statements. As had been previously discussed, outturn was not as had been anticipated. A deficit had been predicted but the outturn was higher than had been expected. Growth had been seen, but expenditure had been greater than income received.

Growth had been seen in 16-19 activity (and again this year), but the Adult Education Budget had not met contract and there was £300,000 of clawback. It was felt that it was increasingly difficult to use the budget for the intended purpose, although a small contract with learning curve had been approved at the last Corporation meeting and efforts were being made. Apprenticeship income had seen growth but some of the additional income had not been realised in-year. Staffing costs had increased to service growth but the income was still to be realised.

Overall, it was felt that it was good news that provision was growing, but that the cost of growth had had an impact on the finances.

Asked about measures to be taken, it was felt that a few years back, resources had been cut to the core and that this had also had a negative impact. It was a question of balance and getting the delivery models right (and this would be discussed some more in the financial recovery plan item following). In respect of staff costs, the areas of growth all required a market premium to attract the right candidates. In respect of the adult budget it was thought there might be further opportunities in the unemployed market.

The external auditor expressed her concern about the balance sheet. She was looking for assurance that liabilities could be met in the coming year, noting that assertions of 'going concern' were for 12 months from signature of the accounts.

It was felt in terms of cash flow that you could count £886,000 of capital grant release and there was a further £306,000 accruals for holiday entitlement for the month of August. This represents holidays accrued in the academic year and taken in August, therefore not a cash liability.

In discussing pay awards, it was confirmed that the additional money which had been received for pay awards from Government had been transferred over to cover the 4.25% pay award which had been agreed. A further pay award was to be considered (to bring the total amount to 6.5%) subject to affordability (but this was felt to be unlikely given the deficit position).

The External Auditor felt that the College was in a difficult position; cuts would come at a cost as well so it was a question of confidence in recovery in respect of going concern. The Deputy Principal noted that 16-19 numbers were above contract for this year. It was thought these were about 987 and it was thought that there would be an additional payment of at least £140,000 in year. Apprenticeship income was looking positive.

The External Auditor also noted that there may be savings to be made on capital bearing in mind that the estate was in good condition. The Deputy Principal noted that these were the kinds of conversations being had with individual budget holders – they were being challenged on their requirements, eg whether they really required 200 software licences for example.

The committee noted that it was the surprise factor which was of real concern and it was noted that there were plans this year to have a soft close on a quarterly basis to ensure that forecasts were more accurate.

It was noted that there may be a need to update the post balance sheet events.

(The question of 'going concern' was further addressed later in the agenda following consideration of the Financial Recovery Plan).

The External Auditor continued with her management letter. The audit had been conducted in line with the areas of risk identified at planning stage. Cut off was not as clean as normal. There had been slightly more errors, but these were not material. Although things were not as tidy as had previously been the case, there was nothing which had been identified as significantly wrong. Processes had been tested and authority levels checked and found that transactions were bona fide.

She noted a difference in practice in the sector about how pension scheme benefits should be recognised. It was felt that there were no apparent issues with the ONS reclassification (including the subsidiary) and that no issues had been identified in testing during the ESFA assurance work. There had been a clean regularity audit.

In respect of audit findings, there had been three amber recommendations made (recommendations which, although not fundamental to the system, provide scope for improvements to be made):

- Deferred income schedule is not user friendly and should be reviewed – while reviewed in year, a more fundamental review would take place by end of January 2024.
- The second recommendation concerned a recommendation made the previous year about grant money being spent of upgrade the sports' hall floor. The Deputy Principal had checked and was confident it had been spent in support of a large number of disadvantaged students.
- The final recommendation concerned the Fixed Asset Register and whether it was being appropriately maintained and it was noted that there had been software issues in year which had delayed updating.

In respect of improvements to systems, there had been an instance of differences between the ESFA schedule and the invoice numbers, which had been an administrative error and spot checks would be carried out.

It was also noted that HR did not always notify IT of a leaver's last day which was noted and accepted, and processes would be tightened up.

Lakes College Enterprises Ltd accounts were received and noted and the letters of representation agreed for recommendation to the Board.

The External Auditor's report was received and noted and recommendations arising from the Committee's consideration of the financial statements and external auditors report are included in the financial recovery plan minute (and therefore resolutions can be found under that item which follows).

31/23 Financial Recovery Plan

The Deputy Principal noted key points from the recovery plan:

Improve assessment of ongoing financial position

- Monthly management accounts and quarterly soft close accounts;
- Scenario planning into management accounts from November;
- Risk register updated;
- (as previously mentioned) 1-2-1 conversations with budget-holder;
- Contribution analysis based on detailed delivery plans to support curriculum planning due diligence;
- Visibility of committed spend to improve forecasting;

Grow grant income by 11% to meet financial plan target

- As previously noted there had been a 10% increase in the 16-19 budget
- Adults -

- retention – note the rules around retention and ensure that Directors sign off any withdrawals and, in response to questioning, raising awareness that retention can have a financial impact.
- Evaluate and explore hybrid delivery
- Increase unemployed activity
- Sub-contract and supported partnership activity

Maximise apprenticeship income

- Apprenticeship starts at 625 – look on course, but need to minimise apprenticeship locks (which can happen when various parts of the process and not aligned, preventing funding release).
- Apprenticeship academy relaunch to target 150 vacancies – felt to be a good way to grow provision

Other contracts and secure oversight

- Contract register (non EFSA/OfS) to be reviewed
- Opportunity register to be reviewed – financial plan target £720k

Staff Costs

- All vacancies were coming to the Executive for approval.
- Review of all temporary contracts and add to utilisation reports
- Update staff framework for new recruitment processes
- Review of apprenticeship caseloads.

Curriculum Planning

- Review in-centre affordability of apprenticeships
- New course approval documentation to specify broader due diligence requirements
- Course design and approval against IOS14001

In further consideration of the financial recovery plan, it was asked about caseload and responsibilities for apprenticeships and felt that it may be some of tasks could be carried out at an administrative level rather than at a more expensive assessor level. It was hoped that some of these issues would emerge through conversations with budget holders. The goal was ownerships of costs and challenge in respect of process, controls and spend and how things could be done differently. Quarterly accounts would be able to highlight that.

It was asked about utilisation and asked whether there was confidence in the data. The Deputy Principal felt that if it was properly entered on EBS then it would be showing up correctly based on the data input by curriculum managers.

It was raised whether there needed to be finance/funding refresher training – to help understanding of funding streams/rules and opportunities.

Asked about the effectiveness of the hybrid model of delivery and there was currently a mixed picture but early days and making sure that there were good quality resources.

Referring to timely achievements for apprenticeships, it was acknowledged that this needed to be added to the recovery plan

It was noted by the Committee that there was a need to take the key objectives from the recovery plan and make sure these were reflected in the risk register.

The Chair noted that it was evident that the issues were being taken seriously. In the list of objectives, he was keen to see priority items which would have the biggest impact. He would also like consideration of the financial benefit of some strategic partnership alliances, for example Rolls Royce.

Returning the conversation to Going Concern, the External Auditor felt the position was finely balanced. Noting again the £886,000 of capital release reserves and the £306,000 of holiday pay accrual (which was an accounting issue), nevertheless there was potential for the unexpected to impact recovery for example a building defect or a change in the ESFA's expectations. She noted the Audit Committee's consideration of the Financial Recovery Plan and the clear emphasis on monitoring of impact and challenge of overspends.

Asked about the Deputy Principal's thinking, she felt that the College was a going concern albeit a tight position. The chair concurred that he felt that there was still a going concern but subject to robust and close monitoring from the Corporation Board, to which the committee were also agreed. It was also noted by the Committee that if the position was not reversed this year, they would be unlikely to be able to recommend 'going concern' this time next year.

The external auditor noted that she would need to seek a second opinion within her own organisation to be able to endorse that position and it was agreed that the latest set of management accounts be forwarded.

(Action since: the External Auditor has since secured a second opinion within her own organisation and, on the basis of the latest set of management accounts and the actions outlined in the financial recovery plan together with the Audit Committee's commitment to ensure robust monitoring of impact, the External Auditor is willing to agree 'going concern' for this year's financial statements. At her request, the Financial statements have been changed under 'going concern' to reflect Board scrutiny of the financial recovery plan and the Corporate Governance Statement has been amended to reflect that forecasts were not in line with outturn under control weaknesses)

Resolved – (under minutes 30 & 31/23)

- 1) That the Financial statements be recommended to the Board for approval and signature, subject to further consideration by the External Auditor (as outlined in the note above)
- 2) That the External Auditor's Final Management Letter be received and noted and forwarded for Board consideration.

- 3) That the Letter of Representations be forwarded to the Board for approval.
- 4) That LCEL annual accounts be received and noted.

32/23 Audit Committee Annual Report

The Audit Committee considered their annual report noting that there had been no significant areas of concern raised by either the internal auditor and the external auditor in the course of their 2022-23 work. The Audit Committee annual report followed guidance in the Post 16 Audit Code of Practice. There had been no issues of fraud in-year.

The Committee had reflected the deficit issue in the issues arising and noted that their recommendations were that their opinion was subject to the implementation of the actions in the financial recovery plan in addition to the recommendations in the audit reports. This being the case, the Committee

Resolved – to approve the Annual Report 2022-23 for consideration by the Board.

33/23 Risk 3

The Committee considered Risk 3 and reiterated the need to ensure that financial recovery was adequately covered in the risk register.

34/23 Audit Tracking Report

The committee received and noted the tracking report. The Deputy Principal had left open the apprenticeship starts recommendation until January 2024 largely because the start of year was always challenging. She noted the mock funding audit scheduled in this year's audit plan.

35/23 Value for Money Report

The Committee considered the Value for Money Report and noted that staffing costs appeared again as an area for concern.

It was felt that there were some actions in the tracking report which were directly linked to financial recovery and the Committee noted the importance of ensuring that the recovery plan, audit recommendations and the risk register were all aligned.

36/23 Audit Chair

As was approved by the Committee memberships at the Board meeting, the Committee approved the appointment of the audit chair for a further two years.

The meeting closed at 1950h