Lancaster & Morecambe College

AGENDA; AUDIT AND RISK ASSURANCE COMMITTEE

Tuesday 28 November 2023 at 5.30pm in Suite 2 of the Employer Hub

In Attendance: Marc Harvey (ICCA, Internal Audit Partner)
Karen Musgrave (RSM, External Audit Partner)
Danny Braithwaite (Principal and Accounting Officer)

Governors are reminded of the College's commitment to equality, diversity and inclusion and the need to consider these issues, along with health and safety, in all Committee business.

1. **Appointment of Chair of the Audit and Risk Assurance Committee 2023/24**

2. **Welcome and Apologies for Absence**
   Sarah-Jane Fletcher, Agata Estkowska

3. **Declarations of Conflict of Interests**
   Governors must declare any interest in any agenda items, where there could be a conflict of interest. For any such declaration, they may be requested to withdraw from the meeting for the discussion/decision on that specific item and will not be eligible to vote on the matter under discussion.

4. **Draft Minutes of the Audit and Risk Assurance Committee Meeting held on 04 July 2023**
   (Paper LMC/A/26/22 refers) ***(for approval)***

5. **Matters Arising**

   - **Committee Action Checklist** *(Paper LMC/A/01/23 refers)* ***(for agreement)***

6. **Terms of Reference and Membership of the Audit and Risk Assurance Committee 2023/24** *(Paper LMC/A/02/23 refers)* ***(for noting)***

7. **Annual Report 2022/23 of the Audit and Risk Assurance Committee** *(Paper LMC/A/03/23 refers)* ***(for approval and presentation to the Corporation)***

8. **Audit Findings Report (Financial Statements Auditors Management Letter and Regularity Auditors (Opinion) Management Report** *(Paper LMC/A/04/23 refers)* ***(for discussion and auditor presentation to Corporation)***

   - **Draft College Annual Report and Financial Statements 2022/23; 01 August 2022 to 31 July 2023** *(Paper LMC/A/05/23 refers)* ***(for information only)***

9. **Annual Report on Risk Management, including Review of Risk Management Policy** *(Paper LMC/A/06/23 refers)* ***(for recommendation)***

10. **Review of Agreed Actions on Audit Recommendations** *(Paper LMC/A/07/23 refers)* ***(for discussion)***

11. **Any Other Business**

12. **Private Discussion between Governors and Auditors**

13. **Dates and Times of Next Meetings**
    Tuesday 12 March 2024 at 5.30pm
    Tuesday 25 Jun3 2024 at 5.30pm

NON-CONFIDENTIAL MINUTES OF THE AUDIT AND RISK ASSURANCE COMMITTEE MEETING HELD ON 28 NOVEMBER 2023

Present:	Steve Wood *(Chair)*	)
	Jane Taylor *(Co-opted)*	) External Governors
	Gary White	)
In attendance:	Marc Harvey ®	Head of Internal Audit, ICCA *(Internal Audit Services)*
	Karen Musgrave	Audit Partner, RSM *(External Audit Services)*
	Danny Braithwaite	Principal *(in capacity as Accounting Officer)*
	Peter France	Vice-Principal Finance and Resources
	Oona Cushen	Governance Adviser and Clerk

® - joined remotely

APPOINTMENT OF CHAIR OF THE AUDIT AND RISK ASSURANCE COMMITTEE 2023/24

A/23/001 Steve Wood was nominated, seconded and duly appointed as Chair of the Audit and Risk Assurance Committee for 2023/24.

WELCOME AND APOLOGIES FOR ABSENCE

A/23/002 The Chair welcomed Karen Musgrave, External Audit Partner from RSM, Marc Harvey, Head of Internal Audit at ICCA and the Principal, Danny Braithwaite, attending in his capacity as Chief Accounting Officer, to the meeting. Jane Taylor was thanked for stepping up to be co-opted to the Committee for this meeting, to enable quoracy to be met. Apologies for absence were received from Agata Estkowska, a new Governor who will be joining the Committee, and from Sarah-Jane Fletcher. All members present introduced themselves.

DECLARATIONS OF CONFLICT OF INTERESTS

A/23/003 No declarations were made and the Governance Adviser confirmed that there were no known perceived conflicts of interest.

DRAFT MINUTES OF THE AUDIT AND RISK ASSURANCE COMMITTEE MEETING HELD ON 04 JULY 2023

A/23/004 The Chair referred members to paper LMC/A/25/22 and advised that the one typing error will be corrected in the approved version.

A/23/005 The minutes of the previous meeting held on 04 July 2023, paper LMC/A/25/22, were agreed as a true and accurate record.

MATTERS ARISING

Committee Action Checklist

A/23/006 The Governance Adviser referred members to paper LMC/A/01/23 and advised that all actions were complete.

A/23/007 The Committee discussed and agreed the Committee Action Checklist; paper LMC/A/01/23.

TERMS OF REFERENCE AND MEMBERSHIP OF THE AUDIT AND RISK ASSURANCE COMMITTEE 2023/24

A/23/008 The Governance Adviser referred members to paper LMC/A/02/23 and advised that the terms of reference are detailed within the Standing Orders, previously approved by the Corporation, and are for noting by Committee members.

A/23/009 The Committee received and noted the Terms of Reference and Membership of the Audit and Risk Assurance Committee 2023/24, paper LMC/A/02/23.

ANNUAL REPORT 2022/23 OF THE AUDIT AND RISK ASSURANCE COMMITTEE

A/23/010 The Governance Adviser referred Governors to paper LMC/A/03/23 and advised that this mandatory report is in a similar format to last year and covers all the information required under the Audit Code of Practice. The report will be submitted to the Education and Skills Funding Agency (ESFA) alongside the annual accounts. Governors' attention was drawn to the report conclusion on page eight, as the Committee must be comfortable in providing that assurance statement to the Corporation.

A/23/011 The Committee discussed and approved the Annual Report 2022/23 of the Audit and Risk Assurance Committee, paper LMC/A/03/23, which will be presented to the Corporation on 05 December 2023, prior to the approval of the Financial Statements.

AUDIT FINDINGS REPORT (FINANCIAL STATEMENTS AUDITORS MANAGEMENT LETTER) AND REGULARITY AUDITORS (OPINION) MANAGEMENT REPORT

A/23/012 Governors were advised that the draft accounts, paper LMC/A/05/23, were provided for information only. The external auditor referred Governors to paper LMC/A/04/23 and advised that this report bookends the planning document provided to Governors in July. The report is principally written for Governors, as those being charged with governance, but it will be submitted to the Education and Skills Funding Agency (ESFA), along with the Financial Statements. The ESFA will then undertake a desktop review, but the auditor provided assurance that there was nothing controversial or of concern.

A/23/013 The executive summary details some minor items outstanding, which includes the final funding reconciliation received by the College today, and then there will be a final review. The accounts should then be ready for sign off. Materiality was set at £319k, but this just refers to sampling and anything of note found during the course of the audit, regardless of the figure, would be brought to Governors' attention. Whilst not part of the audit, the breakdown of the deficit for the year and the pension adjustments have also been listed. Despite the audit team's best efforts, there are no unadjusted items that would impact on the outturn for the year.

A/23/014 Page four of the report includes a graph summarising the risks identified at planning stage. The significant risks identified are looked at for every audit, are based on the assertion of the auditor, and always include Going Concern. The risks are not significant for LMC, but the Education and Skills Funding Agency (ESFA) will look at for every client. The audit team thoroughly tested all material transactions and balances, not just the ones referred to in the report. Risk on income fall under two piece of work; the right amount of recognition of income and where there is clawback, that this has been appropriately recognised. The second is ensuring the financial return (ILR) has been correctly transferred into the numbers in the accounts and appropriately reflects learners' eligibility in the College. This was a significant piece of work with the CIS team to sample a number of items within the ILR. There are two low level control recommendations and no funding issues.

A/23/015 Management control overrides looks at the risk of manipulation for journal entries or accounting estimates etc. The audit team uses analytical software, which is run on the College's entire ledger, to pick up any transaction to ensure that is it correctly posted, has the right figures and is a valid transactions. No issues were raised. Other than the pension scheme, the only accounting estimate relates to depreciations. Although this is a big number, it is a non-cash item. There have also been no policy changes in relation to how deprecation is recognised.

A/23/016 The defined pension benefit is neither an asset nor a liability. The actuary report originally prepared for the College did show an asset, whereas in the past it usually represents a liability. As it was reported as an asset and the accounting standard does not provide for a pension scheme showing an asset, this was reviewed more closely. As week as the valuation, the auditor also obtained the present value calculation, recoverable amount that future contributions represent and the asset ceiling. The Local Government Pension Scheme (LGPS) scheme rules, however, show a Minimum Funding Requirement (MFR) for this scheme, so the present value and future contributions will never show an asset position as there will always be a minimum contribution. The asset ceiling adjustment will bring the defined benefit back to nil. This is not necessarily fair but that is the rule for this particular pension scheme. Not all rules for pension schemes are equal, and some schemes do not have a minimum contribution rule and, therefore, some colleges could be reporting an asset. Governors should give little or no attention to this number, as it is outside of the College's control, but it is important for Governors to understand why it is reported as zero due to quirk of rules applied to the Lancashire scheme. All relevant disclosures are in the accounts and there is the usual benchmarking around the calculations provided by the actuary, which have been fully completed since the report was issued. There is a red RAG rating for the pension scheme, as there is potential for high impact and the numbers are significant.

A/23/017 In regard to going concern, the external auditor must be satisfied, at the time of signing the accounts, that the College is able to meet its liabilities as they fall due and will not run out of cash. The budgets and forecasted were reviewed; the College has a financial health grade of good, has no debt or covenants, so going concern is not an issue.

A/23/018 Reclassification does come into play for the regularity audit, and there was more information requested this time. The Managing Public Money rules have been overlaid on to the existing rules. Borrowing, novel or contentious or repercussive transactions, severance payments and procurement all have new, or elements, of new rules. Even with all the additional work undertaken, there are no issues or concerns whatsoever. These new rules are easy to fall foul of, and it is fair to say that not every college will be reporting no concerns.

A/23/019 The College did fall victim to a fraud during the year, which related to an email hack. The auditor clarified that the College did do all the right things when reporting the fraud. An unpredictability test has not been conducted before, so the audit team did check a sample of supplier bank details and confirmed that these matched those held in the accounting system. Out of 20 samples, there was one sample where the records did not match. No payments had been made and it is not to say that the College would not have picked this up if a payment was requested, but there is a control recommendation.

A/23/020 There are four control recommendations on page 10 of the report, in respect of the Education and Skills Funding Agency (ESFA) income testing, as funding rules become more complex, and all have been implemented by the College. The action taken by the College will be noted by the Funding Agency. There are two new recommendations, neither of which has been classified as significant and the College's response is documented. Without the full benchmarking data, two minor recommendations out of complex funding rules is impressive and much fewer comparable to other colleges. The recommendation around supplier bank details provides the College the opportunity to carry spot checks in the future.

A/23/021 The auditor advised, that despite the best efforts of her team, no unadjusted items were found. The auditor took the opportunity to thank the Vice Principal Finance and Resources, the Finance Manager and the Assistant Accountant, along with the MIS team, for all the information provided and their support during the audit.

In response to Governors' scrutiny and challenge, the following points were highlighted:

A/23/022 The College does not have to set aside a set of money to pay any pension deficit. This is purely an application of an accounting standard, based on a draft by an accountant to apply to a series of valuations coming from the pension valuations. The Education and Skills Funding Agency (ESFA) insist that it is reflected in the accounts but there is little correlation between asset or liability and contributions. The calculation does reflect future pensioners, e.g. non-teaching staff who are members of the scheme. The pension actuary will calculate future pensions to be paid to those staff and discount back to today's money, taking into account inflation etc. Due to rising inflation, the discount rate has applied has shot up, so when the future pensions are discounted, it is a much lower liability than assets. This is the first time in 25 years as an auditor that this scenario has been seen. It is more likely to be due to interest rates rather than inflations, as they drive the bond and gilt rates, which is where the discount rate is taken from.

A/23/023 The Vice Principal Finance and Resources explained that the College has two pension schemes. The Teachers' Pension Scheme (TPS), which is paid out of taxation and so is just a contribution, as well as the Local Government Pension Scheme (LGPS), which is a funded scheme. There are two valuations for this scheme; an accounting valuation for the purpose of the accounts which is what is referred to in the accounts, and then an actuarial valuation which is undertaken every three years and set out how much must be paid by the College. In the monthly management accounts, the charge is just what the College actually pays as its contribution and, as part of that deficit recovery payment, an additional percentage. The deficit payment has now been reduced to a negligible amount. The FRS17 adjustment is effectively this, and is excluded from the management accounts reporting, as it is distorts the accounts and is just an accounting figure and not a cash figure. The Defined Benefit Pension Scheme cannot be listed as an asset as colleges are not entitled to an exit credit and, therefore, no funds are recoverable. In theory, it is an asset if entitled to reduced future contributions, but the asset ceiling inherent within the scheme means colleges would not get anything, so it effectively becomes nil. For some colleges, this may present a problem with loan covenants etc., as it does form part of that calculation, but LMC is not in that situation and so there is no concern. It is such a long-term forecast, that the number is probably not valid at any time.

A/23/024 The Chair of the Committee advised that the Governance Adviser did notify the Chair, along with the Chair of Corporation, about the fraud at the time that it happened.

A/23/025 The Chair of the Committee thanked the Vice Principal Finance and Resources, and his team, for their openness to challenges and on working effectively with the auditors in providing swift responses. The Vice Principal Finance and Resources advised that the audit team are very good to work with, but that it is the Finance Manager who undertakes the bulk of the work for the audit. The assistant accountant was also more involved this year. There is a good relationship with the Audit Partner, Karen Musgrave, and the Audit Manager, Lucy Woods. If the College has any issues that is it insure about, these are able to be raised prior to the year-end audit, so all entries are treated correctly. The demolished modular building still had a book value, so this was discussed in advance and it was agreed that it would be depreciated fully this year.

A/23/026 Up until 15 months ago, the internal auditor had a background in financial testing for the Education and Skills Funding Agency (ESFA). It was good to hear the positive outcome in regard to the financial testing. There are a significant higher number in other colleges, both in mock and actual funding audits, to this is a good result for the College in what is a high-risk area. The external auditor clarified that the funding audit is not carried out by the audit team based in Preston, but by a specialist field team within RSM that conducts audits every week on behalf of the Education and Skills Funding Agency (ESFA).

A/23/027 The judgement on page nine, is the auditor's judgement on the impact of those estimates and the pension scheme is considered high impact because it is based on such a long-term forecast. This year, the discount rate has a big part in the outcome of the pension scheme position, and even a move of just 0.5% would be a big shift in the number being talked about, but would have very little change in those estimates, which is why it has been judged high impact by the auditor. This is a judgement of the financial statements auditor, but is not a judgement on the College. The governing body is beholden to manage that risk but, in reality, there is not really anything to be done. The Vice Principal Finance and Resources clarified that it is a high impact on the presentation of the accounts, but low impact on the operations of the College as no cash is involved.

A/23/028 The Principal confirmed that he had met with the external auditor, in his role as Principal and Accounting Officer. The detailed conversation about the accounts was very helpful for the new Principal, who was satisfied that the accounts are all in order and feels comfortable to sign off the accounts for the previous year. It was also noted that the external auditor had also undertaken a telephone discussion with the Chair of the Corporation, both as a courtesy and as part of the regularity audit.

A/23/029 The external auditor was satisfied that there were no concerns and it was unlikely that any other issues would be raised by the Education and Skills Funding Agency (ESFA). The Vice Principal Finance and Resources advised that, occasionally, the Agency has come back with a query, so the accounts are reviewed. The College also has its termly conversation with the local Agency team on Monday 04 December 2023, so this is timely reporting.

A/23/030 The Committee discussed and agreed to recommend the Audit Findings Report (Financial Statements Auditors Management Letter) and Regularity Auditors (Opinion) Management Report, paper LMC/A/04/23, to the Corporation for approval, which will be presented by the external audit partner to the Corporation on 05 December 2023.

<u>ANNUAL REPORT ON RISK MANAGEMENT, INCLUDING REVIEW OF RISK MANAGEMENT POLICY</u>

A/23/031 The Vice Principal Finance and Resources referred Governors to paper LMC/A/06/23 and advised that the full risk register, comprising the main and devolved registers was attached to the email for Governors to filter as they please. The devolved risk registers are those completed by individual departments, but the central strategic risks are those prefixed by MS. The College Risk Management Group met in October 2023, and reviewed all the risks in detail and several were amended. There are currently six net significant risks on the main register:

- The appointment of Governors remains a significant risk, as the College has yet to recruit a permanent Chair of the Corporation and would, ideally, like to recruit a further two or three independent members.

- The reclassification of the sector has been kept as a significant risk, as the full ramifications of the change have not yet been announced. There is some suggestion that the financial year-end could be changed as part of a consolidation project at the Department for Education (DfE), i.e. to form one consolidated set of accounts for the whole sector. There is likely to be changes that have not yet come to fruition.

- Funding rates are classed as significant on the basis that, whilst the College is ahead on its 16-18 funding, there are still challenges with apprenticeships and other funding streams. It was considered important, therefore, to keep this as a significant risk.

- The impact of new projects on the Senior Leadership Team (SLT) and on the College's core business remains significant. Most new funding coming from Government is now in the form of project funding, along with all the separate audit and reporting requirements, which is an increasing burden on College management.

- The defunding of curriculum qualifications means curriculum reform remains a significant risk. The number of qualifications being defunded at Levels 2 and 3 will have an impact on the existing curriculum and create some issues. The College will need to source other funded qualifications to replace those defunded.

- Success rates for GCSE maths and English have improved, so this risk may reduce to contingency at the next Risk Management Group meeting.

A/23/032 The Risk Management policy has been reviewed, and the only changes are to recognise the change in membership of the Risk Management Group. All other aspects of the policy remain unchanged.

In response to Governors' scrutiny and challenge, the following points were highlighted:

A/23/033 Governors noted that having filters in the document does make it easier to review any significant areas of concern and actions can be better tracker on a regular basis. The Principal advised that the team is also looking at an Opportunities Register to feature in financial planning and provide opportunities to plan resources.

A/23/034 Governors suggested that there should be a devolved risk register for each capital works project. For all capital projects, the surveyor will review and issue a certificate of works completed, sometimes on a phased basis, and payment is only made on receipt of that certificate. There are risks around the T Level project, as it is a tight completion deadline to have all work finished and operational for the start of September 2024. The T Level funding bid was based on cost estimates provided by the quantity surveyor, so the actual prices on the tender may or may not have changes from those estimates. The Vice Principal Finance and Resources agreed to introduce a separate section for capital projects, as there will be a number of risks moving forward and as the College further develops its property strategy.

A/23/035 The Committee discussed and agreed to recommend the Annual Report on Risk Management, including the Review of Risk Management Policy, paper LMC/A/06/23, to the Corporation for approval.

ACTION: Vice Principal Finance and Resources to set up a devolved risk register for capital projects moving forward.

REVIEW OF AGREED ACTIONS ON AUDIT RECOMMENDATIONS

A/23/036 The Vice Principal Finance and Resources referred Governors to paper LMC/A/07/23 and advised that this is a log of any recommendations made within an audit report. The report has been reformatted into the same format as the College risk register, to allow Governors to search by audit, dates, grade of recommendation etc. All completed and reported recommendations from previous years have been removed, with only those actions still in progress carried forward to this report. The first set of recommendations is from last year's review of the Adult Education Budget (AEB), which was an advisory review rather than a controlled audit. This audit looked at how the College could make better utilisation of its Adult Education Budget (AEB). There was a number of suggestions which are all being reviewed. The College is currently in the process of an external review of its curriculum, by consultants Bob Hill Associates. The consultant is working with the Programme Area Managers (PAMs) to review all aspects of the curriculum and to identify opportunities, needs and priorities. The recommendations will form part of those considerations, as the external review will be used to tackle the curriculum offer in terms of all College provision, i.e. 16-18, adults and apprenticeships. Other recommendations have now been implemented and completion dates have been added. The recommendations within the Audit Findings Report will also be added to this document for monitoring going forward, as well as any recommendations from the forthcoming internal audits.

A/23/037 The Committee received and discussed the Review of Agreed Actions on Audit Recommendations; paper LMC/A/07/23.

ANY OTHER BUSINESS

A/23/038 There were no other items of business raised.

PRIVATE DISCUSSION BETWEEN GOVERNORS AND AUDITORS

A/23/039 This item is a confidential item for Corporation members only, under Section 41 of the Freedom of Information Act. Paragraphs A/23/040 to A/23/044 are therefore, minuted separately.

DATES AND TIMES OF NEXT MEETING

A/23/045 Tuesday 12 March 2024 at 5.30pm.
Tuesday 25 June 2024 at 5.30pm.

The Committee agrees that these non-confidential minutes are an accurate record of the meeting.

APPROVED ON: 12 March 2024