

Minutes of the Audit Committee meeting held on Monday 6th March 2023 at 5pm via Microsoft Teams

Members Present: Liam Butler (Chair)
Wendy Davies
Nirmal Gupta

In Attendance: Gill Darwood (Director of Corporate Governance) (DCG)
Louise Jones (Chief Finance Officer) (CFO)
Craig Sullivan (Bishop Fleming) (to item 8)
Neil Thomas (Chief Executive & Principal) (CEP)
Louise Tweedie (RSM) (to item 8)

Committee administrative matters

1 **Confirmation of quorum**

1.1 The Director of Corporate Governance confirmed that the meeting was quorate.

2 **Apologies for absence**

2.1 There were no apologies for absence.

3 **Declarations of interest**

3.1 There were no declarations of interest.

4 **Approve minutes of previous meeting held 28/11/22**

4.1 The minutes and confidential minutes of the meeting held on 28th November 2022 were accepted as an accurate record for signature by the Chair.

5 **Matters arising**

5.1 There were no matters arising.

Internal Audit Matters

6 **Internal audit progress report, including internal audit reports**

6.1 The CFO introduced the internal audit progress report and L Tweedie presented the detail of the report which included:

6.2 *Internal Audit Progress Report:* This report set out that five audits had been completed this year, three gaining substantial assurance, and two with reasonable assurance. 13 actions had been agreed as a result of this work. Audits which were yet to complete were on learner number systems (apprenticeships), IT arrangements and follow up work.

6.3 *FE – benchmarking of internal audit findings 2021/22:* This report compared the results of the 2021/22 internal audit work at the College compared to work undertaken at other RSM education clients. The key points to note were:

- The levels of assurance at Dudley were slightly better than sector average: substantial assurance of 67% compared to the sector of 54%, and reasonable assurance of 33% compared to the sector of 35%.

- On average for each audit assignment there were 1.6 low priority audit actions (FE sector: 2.22), 3.4 medium priority actions (FE sector: 1.37) and 0 high priority (FE sector: 0.17).
- 6.4 The report included a thematic overview of high priority actions seen across the sector in other colleges. The college’s annual opinion of ‘adequate framework for risk management, governance and internal controls and further enhancements identified’ was shared by 75% of RSM sector clients and showed that the College was in a positive position compared to the sector.
- 6.5 In response to a question from the CEP in relation to the sector finding on procurement, L Tweedie noted that this was primarily in relation to capital projects and related management of contractors.
- 6.6 *Human Resources Processes – Oversight and Management of Staff Performance:* The findings of the audit provided reasonable assurance and actions had been recommended to improve the control framework. Two management actions had been recommended and agreed as follows:
- The annual human resources report to Corporation should include details of staff performance management reviews (priority: medium).
 - Guidance and parameters for RAG ratings (assigned by employees for each objective) would be established as part of the new PMR system (priority: medium).
- 6.7 The CEP noted that a review of the PMR system would be undertaken over the coming months as it had been a very successful system in place for a number of years and this review would present an opportunity to incorporate these actions into the process.
- 6.8 *Partnership Framework: Contract Management:* The findings of the audit provided reasonable assurance and actions had been recommended to improve the control framework. It was noted that this review did not relate to sub-contracting, but to other contracted partnerships. Four management actions had been recommended and agreed as follows:
- A partnership handbook be developed (priority: medium)
 - A suite of procedure notes covering day to day activity be documented (priority: medium)
 - Evidence of due diligence checks would be held centrally (priority: high)
 - Contracts/agreements would be signed and dated by all parties before delivery starts (priority: low)
- 6.9 In response to a question from the chair, the CEP confirmed that whilst due diligence had previously been undertaken, there had been no formal mechanism to record and hold this information centrally.
- 6.10 The CEP provided further clarification on the contracted partnerships which fell within the scope of this review which were predominantly strategic partnerships

such as HEIs and other co-delivery partners, and represented approximately five partnerships.

6.11 *Marketing Arrangements – Adult Students:*

The findings of the audit provided substantial assurance. One management action had been recommended and agreed as follows:

- The marketing team would document actions agreed following discussions held on lessons learnt from campaigns.

6.12 Two further RSM documents had been included in the document library on Convene for information: Procurement and contract management; English Further education colleges reclassification.

6.13 **It was resolved** to note the internal audit progress report.

7 **Rolling schedule of audit recommendations**

7.1 The CFO presented the report which summarised the progress made in implementing the recommendations contained in the Audit Reports submitted by RSM and BDO.

7.2 The report identified those recommendations that remained in progress and highlighted those that had been completed since the last audit committee. The report excluded any actions that were reported as complete previously, although these were only removed from the tracker once confirmed by RSM. Substantial progress had been made since the last report:

- Nine recommendations had been implemented since the last committee meeting.
- Seven recommendations had been added as a result of the three latest internal audit reports.
- There were 13 recommendations still to be implemented of which 8 were not yet due.
- Two recommendations were subject to delay being:
 - The implementation of a system to monitor and report health and safety risk assessments. A new system has been procured and was being implemented and would be in place by May.
 - Documentation of visits by the business partnership team to employers who had students placed with sub-contractors. The process was being revised to improve effectiveness for the relevant employers.

7.3 The CFO provided further clarification in response to questions from members, noting that there was previously a manual system in place for updating risk assessments. She explained the approach in relation to the rating of actions, implementation and completion dates, noting that a revised implementation date was provided for any actions which had been extended.

7.4 In response to a question from the Chair in relation to staff recruitment, the CFO advised that recruitment was still a challenge across the College, particularly in some curriculum areas. The CEP advised that in some areas this

had restricted the College's ability to recruit new cohorts of learners. This was noted on the risk register.

7.5 **It was resolved** to note the rolling schedule of audit recommendations.

Risk Management Matters

8 Risk Management spring term report

8.1 The CFO presented the risk management spring term report, noting that the senior team undertook a monthly review of the risk register to assess if the risk scores were still accurate, to ensure that all appropriate actions were noted and good progress was being made.

8.2 The reclassification of colleges into the public sector was included in two risks, around changes in government policy and the impact on the College's financial stability.

8.3 Changes had been made to the following risk scores:

- The risk from changes in government policy, particularly public sector reclassification had an increased gross risk of 12 and an increased net risk of 9.
- The risk regarding delivery of the IoT year 2 business plan had an increased net risk of 9. This was related to issues with the delivery by one of the HEI partners. The financial position of the IoT was not currently adversely affected by this.
- The risk of the College's response falling short of statutory requirements on keeping children safe had a reduced gross risk of 9, whilst the net risk remains the same.

8.4 The CEP provided clarification in relation to questions from members relating to the Institute of Technology, advising that plans were in place to identify alternative HEI partners to support the IoT delivery, thus spreading risk amongst a greater number of partners. This position had been transparently communicated to current partners. The current situation in relation to the contract with University of Wolverhampton did not represent a financial risk to the College in terms of income, nor of students completing programmes which they were already enrolled on. Conversely, the College was benefitting from delivering a larger percentage of students in the facility than planned and a different mix and balance of provision.

8.5 In response to a question from C Sullivan relating to the float to TTPL and whether this was likely to increase during the year, the CFO advised that the level of float would be less than anticipated as the TTPL financial position in terms of income and pay were better than forecast.

8.6 *ONS Reclassification*

At the last audit committee, the initial impact of the ONS reclassification of FE colleges into the public sector had been considered. The CFO noted that the picture continued to evolve and was likely to do so for some time. It was clear that DfE continued to work with HM Treasury on policy development which

was being released to the sector gradually. There was still much to resolve, for example the VAT position and potential change in year-end, and there were frequent webinars run by DfE to update colleges on the latest decisions.

- 8.7 The biggest impact was that being in the public sector meant that the College was required to comply with government financial requirements set out in Managing Public Money (MPM). Since 29 November 2022 the College had been unable to access its revolving credit facility (RCF) without approval due to the terms of MPM. The College's partnership manager in the DfE territorial team had worked hard to negotiate on the College's behalf and as a short-term measure, approval had been granted to use £1.25m of the RCF until 31 July 2023. If cash support was needed after this date, the College would need to request short-term borrowing from HMT. The finance team were in the process of developing budgets for 2023/24 and related cashflows which at present suggested that the College would be able to manage without cash support, but cash balances would be very low. The position would be assessed on a regular basis and reported to the Corporation through the Finance and Estates Committee.
- 8.8 Within the committee pack were some short briefing papers, including the DfE's bite sized guides on reclassification and a summary of key changes provided by RSM.
- 8.9 Members discussed the wider implications of the ONS decision on the sector and the position of current commercial lending partners going forward. The CEP noted that the College's financial strategy had been to remove reliance on RCF funding over a number of years and this would be an item for strategic discussion at the next full Corporation meeting. In addition, the Annual Strategic Conversation with ESFA and DfE colleagues was due to take place on 17th March where the position could be further discussed.
- 8.10 Members noted the impact of these constraints was likely to be to stifle innovation in the sector, such as had been seen with the highly successful capital developments at Dudley.
- 8.11 The Chair noted that the role of the Corporation would evolve, as many matters over which the Corporation had previously had decision making authority would in future require DfE approval.
- 8.12 **It was resolved** to note the risk management spring term report and update on reclassification of colleges.

L Tweedie and C Sullivan left the meeting.

External Audit Matters

9 **Confidential – External auditors' performance 2021/22 accounts and appointment for 2022/23 accounts**

This matter is the subject of a separate and confidential minute.

10 **Any Other Business**

10.1 The CFO advised that quotations were currently being obtained for the Subcontracting Controls Assurance Review which was required to be completed annually. The report of this review would be brought to the committee once completed.

10.2 There were no further matters of any other business.

11 **Date of next meeting**

11.1 12th June 2023

The meeting closed at 18.05 hours.

Approved by the Audit Committee at the meeting held 12th June 2023.