

**Minutes of the Audit Committee meeting
Held on 6th December 2022 at 4pm in 4H01 and via Teams**

Present Jim Harris (Chair), Peter de Braal (MS Teams), Guy Lonsdale, Keith Pearson, Mike Stopper

In Attendance Ann Hardy (CEO), Adrian Clarke (Group Director Corporate Services), Julie Baxter and Lauren O'Brien (Management Accountants), Dr Ron Hill (legal advice as required in relation to Governance) (all in person), Hugh Callaway (Modal Managing Director) for Item 16 only Andrew McCulloch, David Robinson (TIAA) and David Hoose (Mazars) via MS Teams

Audit Committee Members and staff attendees introduced themselves.

1. Apologies for absence

No apologies were received.

2. Declarations of Interest

Keith Pearson (KP) declared in the interests of transparency that as a previous Finance Director, who left the Partnership's employment over 5 years ago, he may be perceived to have a conflict in relation to previous decisions made.

Members were reminded to declare any interests as and when they arise.

HC joined the meeting at 4.01 pm.

3. Minutes of the meeting 6th October 2022

3.1 An in depth discussion took place of the various action points and it was noted that some of these were evidenced by items on today's agenda, and the Clerk and Chair had liaised regarding others.

3.2 **15.2 Value For Money – Compose new VFM working group and report back** – the CEO reported a working group has been set up and Terms of Reference are being written to take this action forward.

RESOLVED: that the Audit Committee approve the minutes of the Audit Committee held on 27th September 2022 as a true record.

The Chair changed the order of the agenda and discussed items 16, 12 and 14 next.

16. Modal Update

16.1 HC was in attendance, provided members with an introduction to Modal and presented his update.

16.2 The Chair raised concerns that Modal had 2 years of financial losses and asked if we were confident that they could generate a surplus going forward. HC explained they were looking to reduce the cost of the business; there were software support contracts coming to the end and he had already reduced them by half through negotiations; we were increasing learner numbers and revenue and had signed an agreement with ABP for Humber pilot training; we were also benefitting from funding gained.

Going forward Modal would be delivering new funded projects under the Shared Prosperity Fund and driver training through the GLLEP Labour Market Support Fund. We needed to become more aggressive in the market place to get more business. Road haulage was not protected from the recession and some haulage businesses were having issues and some were not. We are looking to grow maritime with specialist radar courses with all courses already run at full capacity and the two booked in for next year.

16.3 The CEO explained there will be a paper coming to Corporation which would look at the longer term position of Modal and its loan which was currently at £8.8m loaned from the Group to Modal and the agreement was that this wouldn't exceed £9m. The CEO explained that Stone King were advising us on how Modal was set up and why it had been set up as a subsidiary company.

- 16.4 A query was raised on whether Modal, as a commercial business, had the flexibility to meet its commercial needs without being tied up in the bureaucracy of College administration. HC explained there were more benefits to being inside TEC Partnership. Details in private business.
- 16.5 In answer to a query regarding the sign-off of Modal's accounts as a going concern, DH confirmed that the parent company were committed to support the entity and the position of the Directors of Modal was that they were happy to sign off the Modal accounts which was accompanied by the Letter of Support.
- 16.6 In response to a query, HC explained the new process for cadet recruitment which was good news for us as in the future, cadets will have the choice of coming to Modal instead of applying to us and getting sent to another college.
- 16.7 HC explained what was being done at Modal to reduce their high cost base: depreciation on simulators, re-negotiating software support contracts, utility bills are huge and still increasing, solar panels have been installed but only save £200/month in electricity costs.

HC was reasonably optimistic for funding opportunities as they are established with the LEP now and he is on the LEP Boards. There were many opportunities for Modal that they couldn't take on if they weren't part of TEC Partnership.

The Audit Committee thanked HC for attending and providing them with an update on Modal.

HC left the meeting at 4.24pm.

RESOLVED: to note the update received on Modal.

12. FSA Management Letter 2022 including Audit Findings Report and Letter of Representation

- 12.1 DH reported that the audit was well advanced and was significantly further ahead than this time last year. We are moving towards an unqualified audit position with section 2 being finished off and there was nothing that unnerved him. Working towards an unqualified audit by the end of December but we are waiting for more clarity from the ONS and the DfE.
- 12.2 DH went through some of the significant risks and key areas of management judgement:
- Defined benefit pension scheme assumptions:
Management have gained sufficient information from the pension fund to enable us as auditors to understand and conclude that the College's share of the assets is allocated appropriately.
 - Modal prior year adjustment:
Management have adjusted the comparative figures in Modal as a result of an error identified in respect of the VAT receivable reported in the 2021 financial statements. The overall error is £91k, which is material for Modal.
 - Provision against the Modal debt in the Group
Management have recognised an additional impairment provision against the amounts due from Modal in the Group's financial statements of £1.3m. This is supported by a discounted cash flow model, which runs to 2039, and assumes a discount rate of 4% (in line with bank borrowing) and a growth rate of 3% after year 8. We consider the assumptions used to be reasonable. Management have further sensitised the model and in a worst case scenario would require a further £1.6m provision – however we agree with management that this is an unlikely scenario.
 - Reclassification of Lady Edith Drive
Management have proposed a reclassification of the Lady Edith Drive property from current asset investments to tangible fixed assets. Management have asserted that this is a change in accounting policy, and thus the treatment needs to be reflected retrospectively in both the SSSL and Group financial statements, by way of a prior period adjustment. We are in agreement with this treatment.
 - Harpur Trust vs Brazel
We have received management's assessment of any potential liability as a result of the Supreme Court findings in the Harpur Trust vs Brazel case. The assessment by management concludes that the

liability would be immaterial and has thus not been recognised. We are satisfied that this is appropriate.

- Description of deficiency – Trading:

We recommend that the fixed asset register used for the calculation of depreciation is amended such that the potential for manual input errors is reduced.

Management response – the Finance Team have reviewed assets in excess of £90m, there was not an up to date fixed asset register, are now in a position to move from a manual process to an automated one and therefore, we believe this shouldn't happen again. The amount in question was some £666 which we believe is not material.

- Description of deficiency – College, Trading and Modal:

It was noted that the VAT return for two quarters were submitted to HMRC with incorrect information.

Management response – the VAT for Modal highlighted that in last year accounts there was a £91k error and this has been corrected. For both Trading and Modal it came to our attention that two zero VAT returns had been submitted to HMRC and therefore it is our intention to review the VAT for those periods and inform HMRC of our findings. A full review of the College VAT accounts was reviewed during the year which had the greatest risk associated with it and it is our intention to do this for all companies.

DH went through the auditors scores for the items he had already talked about. DH asked for his thanks to be noted to MTK and the team for getting us this far.

12.3 A governor asked with the adjustments made in the accounts, were there any surprises which impacted the bottom line.

The CEO reported there was nothing that came as a surprise; we knew where we were when MTK took up her post and where we expected to be. Governors said this was great news and great progress by the team.

12.7 A governor asked about the unadjusted misstatements, given we were able to quantify the amounts in debit balances, why has this not been amended.

JB explained this was a paper movement really; they are working on this as the next target to improve reporting and have been working on rates invoices today to rectify this.

RESOLVED: to note their approval of the FSA Management Letter 2022 including Audit Findings Report and Letter of Representation and recommended they were sent to Corporation for full approval.

14. Draft Financial Statements

14.1 DH said he was happy the statements were technically compliant; there was work to do to finish off them off but nothing to suggest they would move again.

The CEO explained the annual audit report and self-assessment report would go to Corporation next week for approval and these documents were handed out to members.

DH thanked MTK and the team for all their hard work on producing these.

DH reported they had seen the draft statements and all the informed work and there was nothing to draw to the Committee's attention from the Regulatory Audit point of view. It would be challenging with the ONS going forward.

14.2 A governor asked about the sensitivity around the Modal loan, there was no reference in the management letter, where the assurances elsewhere? DH will check as it had been in previous years.

14.3 A governor asked with the college moving into the orbit of central government and trying to manage and build money, do you envisage any impact from an audit point of view.

DH said the headline view was it will be much more difficult for colleges to borrow externally and commercially and in relation to debt repayment the DfE will step in as the lender; this was not a concern for the TEC Partnership at this time as they have no overdraft or revolving credit facilities. In future colleges will need ESFA approval in advance. There will be more challenges with colleges keeping proceeds of fixed asset capital projects and issuing to balance revenue budgets and more challenge to loss making subsidiary companies. DH said more detail will come out and there would be a college handbook in the next 2 years which would be more rules based.

- 14.4 A governor stated with pensions, Modal and other operating expenses, year on year teaching costs had halved and premises costs had trebled, did we need a more refined analysis of costs this year. There had been a discussion with the auditors and better reporting is now being done.
- 14.5 It was identified that on Page 18 possible revision was needed to the local board members as well as Corporation – it was agreed this would be removed.

DH left the meeting at 4.40pm.

RESOLVED: to note their approval of the Draft Financial Statements and recommended they were sent to Corporation for full approval.

4. Group VP Finance's Governor Briefing

- 4.1 JB said Finance was heading in the right direction, we had new teams in place and were looking at processes and procedures. Management accounts are now turned around in 10 days and budget holders can look at their costs via a new dashboard, the balance sheet reconciliation is done more regularly to lessen adjustments.

A governor asked if this was across the Group? JB confirmed all sites were using the same systems now but more training was needed. The CEO said the new reporting system was making a real difference and we were back in a position of anytime reporting and budget holders knowing exactly where they are; it had been very well received.

RESOLVED: To note the Group VP's Finance's Governor Briefing.

5. Internal Audit Strategy and Annual Plan

- 5.1 DR confirmed that 1 reasonable assurance had been given and in comparison to previous years this was a very good return. Recommendations – more had been made this year even though assurance levels were slightly better.

4 reviews had been carried out and were summarised within the report. The management account reporting had been deferred last year and moved into this year.

- 5.2 A governor asked why the management accounts reporting review had been cancelled, would it have been a limited assurance if it had been undertaken. DR explained it had been cancelled at MTK's request with a new team in place there would have been no benefit from an audit, so he didn't know if it would have been a limited assurance. The CEO said it was exactly for that reason, we knew where the problems were and the delay had given us the opportunity to improve and we would then benefit from an audit when it was done, with systems implemented and in place we would get real benefit from the audit. The audit will be arranged around June.

RESOLVED: to note the Internal Audit Strategy and Annual Plan.

6. Internal Audit Service Progress Report on Internal Audit Plan 2022/23 – verbal update

- 6.1 DR reported that the first piece of work started last week with the rest of the audits planned for the remainder of the year; an update would be submitted to the next meeting.

A governor asked were there any issues from their point of view. DR confirmed there were no issues but the grant information needed to be in before AG left, hopefully they will be getting this done over the next few days.

RESOLVED: to note the Internal Audit Service Progress Report on Internal Audit Plan 2022/23.

7. Investment Strategy

- 7.1 The plan is to take the Investment Strategy to Corporation for approval if the Audit Committee are happy with it.

- 7.2 Cash balances fluctuate between £15-17m and this would be better placed elsewhere to increase the interest. MTK is asking Audit Committee to recommend to Corporation that she looks at short term deposits with other banks to ensure a greater return of investment, than currently been received from our existing bank, with no risk to the Corporation.

It costs £5m/month to run the Corporation and it is our responsibility to get the best benefit from those reserves.

- 7.3 A governor asked where the basis of the policy had come from, had it been adapted from another college.

The CEO explained MTK was being mentored by York College and it was her assumption they were assisting with this.

- 7.4 A governor said in order to operate a cash forecasting policy, we needed to be confident in our processes and vision to be able to see this and wanted to check we wouldn't have money tied up we can't get out.

The CEO confirmed we are receiving more accurate figures than before and no investments would be made without being submitted to Corporation first.

RESOLVED:

- to recommend to the Corporation, that the GVP Finance may look at short term deposits with other banks to ensure a greater return of investment, than currently been received from our existing bank, with no risk to the Corporation.
- to recommend the approval of the Investment Strategy to Corporation.

8. Cyber Security

- 8.1 AC presented the report and gave members an overview of our cyber security.

- 8.2 JH stated there had been no high level cases lately but this wasn't always reported on as colleges liked to keep this quiet. A governor noted there had been isolated incidents across local authorities.

A discussion was held on cyber security being an amber risk on the register and that this reflected the level of impact an attack could have and the work still to be done to protect us although this was always going to be an ongoing issue.

- 8.3 RH said the Audit Committee is the Board's method of achieving comfort and assurance on core systems and procedures and this type of report provides extra comfort and assurance for members.

- 8.4 A governor stated at the last meeting Nathan Michael had been present and raised staff comfort levels with risk and threat and talked about staff sampling. AC said the staff survey had just gone live and he would check it had been included and report back.

- 8.5 A governor said whilst your own company manages IT risks, how do you control the IT staff and what they can do. AC explained about 10 years ago we were using a joint domain user login and this has not

been used for last 7/8 years; we now have individual accounts with domain administrators having segregated rights.

MS left the meeting at 5.09 pm

- 8.6 A governor identified there was no assurance on Cyber Security on the internal audit plan. AC explained we have the JISC report which can be brought to the Audit Committee.

RH said it was common practice to look at specialist audit providers to give a stronger and more useful perspective than internal audit. DR said this was in the audit plan for 23/24.

RESOLVED: to the note the update provided

9. Risk Management Progress Report and Risk Register Update 2022/23

- 9.1 A discussion was held on the Risk Register and the controls being put in place to manage these risks.
- 9.2 A governor asked about Ambition 2030. The CEO reported this was a 7-year plan to look at where we wanted to be; staff development sessions had been held with senior managers to look at the vision, mission and values and there was a second meeting being held in January to inform the decisions.
- 9.3 Another governor asked how risks found their way onto the register. The CEO explained there had been a total refresh of the document over the summer with the new management team with a bottom up approach via the Group Leadership Team on their own risk registers and risks added to the strategic risk register from there.
- 9.4 A discussion was held about safeguarding and needing good controls. The CEO stated that internal audit had suggested this was on the risk register so we can acknowledge any potential risk and how we're dealing with it. We already know there are a whole range of controls already happening the risk register reflects all the positive controls in place.

RESOLVED: to note the report and update on Risk Management Progress Report and Risk Register Update 2022/23.

10. Fund Fraudulently obtained report – verbal

- 10.1 There was nothing to note.

RESOLVED:

11. Senior Postholders Expenses 2021/22

- 11.1 No queries were raised against the Senior Postholders Expenses 2021/22.

RESOLVED: to note the report on Senior Postholder Expenses 2021/22.

13. Self-Assessment Regularity Questionnaire

- 13.1 The draft Annual Audit Committee Report and the Self-Assessment of the Audit Committee were handed out in the meeting and would be emailed to members for approval and would be marked to follow on the Corporation Agenda.
- 13.2 The CEO explained we had tasked Stone King with reviewing that our subsidiary companies were being run properly.

RESOLVED:

- to note the Self-Assessment Regularity Questionnaire
- to send any comments on the draft Annual Audit Committee Report and the Self-Assessment of the Audit Committee

15. Ofsted Action Plan

15.1 This Action Plan would now be covered under the new meeting structure via the Curriculum & Quality Group.

RESOLVED: to note and receive the Ofsted Action Plan.

17. Any Other Business

17.1 A governor asked if the dates of future meetings were fixed or could move if members were not available. The CEO explained because of the review of governance, the annual cycles of business for all committees would be looked at and changes made as necessary, including dates of meetings.

Date and time of next meeting:

Tuesday 14th March at 4pm in 4H01, University Centre, Grimsby

The meeting closed at 5.27 pm

Chair of the Audit Committee

Signed _____

Date _____

AUDIT COMMITTEE Action Schedule ; 6th December 2022

	Minute	Action by	Action
12.	FSA Management Letter 2022 including Audit Findings Report and Letter of Representation	GVP Finance/ Chair	To note their approval of the FSA Management Letter 2022 including Audit Findings Report and Letter of Representation and recommended they were sent to Corporation for full approval.
14.	Draft Financial Statements	GVP Finance/ Chair	To note their approval of the Draft Financial Statements and recommended they were sent to Corporation for full approval.
7.	Investment Strategy	GVP Finance/ Chair	To recommend to the Corporation, that the GVP Finance may look at short term deposits with other banks to ensure a greater return of investment, than currently been received from our existing bank, with no risk to the Corporation.
7.	Investment Strategy	GVP Finance/ Chair	To recommend the approval of the Investment Strategy to Corporation.
13.	Self-Assessment Regularity Questionnaire		To send any comments on the draft Annual Audit Committee Report and the Self-Assessment of the Audit Committee.