RNN GROUP

Meeting/Committee	**Joint Audit & Risk and Finance & Resources**
Date of meeting	Thursday 24th November 2022 at 5pm (via Google Meet)

Governors present:

Stephen Bulley	Chair (Audit Committee)
Sharron Blackburn	Audit Committee
Roopa Patel-Harji	Audit Committee
Shirley Collier	Audit Committee
Janet Pryke	Finance Committee
Jenny Worsdale	Finance Committee
Margaret Cobb	Finance Committee
Jason Austin	Finance Committee
Debbie Marshall	Finance Committee

In attendance:

Maxine Bagshaw	Director of Governance
Phil Curtis	Executive Director of Finance
Ryan Falls	CavanaghKelly, External Auditors
Rob Barnett	RSM, Internal Auditors

1 Appointment of the meeting Chair

Stephen Bulley was appointed as the Chair of this joint meeting between the two committees.

2 Declarations of interest

The Chair reminded everyone present to declare any interests at the appropriate time during the meeting. No specific declarations were made and standing declarations were noted.

3 Welcome, introductions and apologies for absence

Apologies for absence were received from Monika Rodzos. Ryan Falls, from the new external auditors KavanaghKelly, was welcomed to his first meeting.

4 2021/22 Financial Statements Audit Management Letter

Ryan Falls from external auditors drew the groups' attention to the detailed report circulated in advance and key matters highlighted were:

- The executive summary provides an overview of the work completed and the findings
- Section 2 sets out the scope
- Section 3 details the significant risks and the approach taken in relation to these
- Report confirms the work completed to date and also the aspects that are still outstanding

In relation to key risks, the groups attention was drawn to:

1) Revenue recognition – auditors confirmed that they had found nothing unusual during their testing. There are a couple of things that remain outstanding before this element of the audit can be concluded. These are; ESFA confirmation which is usually received in December each year and a few bits of information on student data which is still to come from the MIS team.
2) Management override – team have looked a controls in place and specifically key journal entries. There are no adverse findings to report in relation to this.
3) Going concern – governors were reminded that this relates to the group's ability to confirm that it can continue trading for a period of 12 months from the signing of the accounts. Audit team recognise the significant work that is currently ongoing in relation to cost savings required. Auditors require further detail of the plans in relation to this before the audit can be concluded.

- Section 4 – this details other risks and examples given were staff costs and accruals
- There has been a significant movement in the pension position in year, with a significant reduction in the deficit. Auditors confirmed that they have investigated this.
- Team have completed their review work in relation to regularity with no issues identified
- Regularity Self-Assessment Questionnaire is to be completed and provided before the audit can be concluded
- There are no significant events within the year
- One management recommendation made in relation to maintenance of the fixed asset register
- Section 6 confirms that there are no significant adjustment
- Section 7 provides detail on the two subsidiary companies, which are NFPC Limited and RES Limited. Two potential adjustments were identified for NFPC, however as they are not considered to be material they remain unadjusted. There were three management recommendations made regarding NFPC which have been accepted.
- Appendix 1 is the Letter of Representation required from the group to external auditors.

External auditors took the opportunity to thank the Executive Director: Finance and the team for all their hard work and support during the audit.

In general discussion, one member of the group raised a question in relation to pension and particularly the actuarial gain at yearend. They asked whether it would be prudent to take the gain and/or have a post balance sheet event comment, given the national press regarding recent significant declines in pension values. Group asked whether it would be prudent to obtain a further pension valuation given the decline. Group agreed that it would. Auditors indicated that the actuarial position this year is reported to be consistent across the country with a number of influencing factors, and an example given was life expectancy. External auditors confirmed that they have seen similar shifts in other colleges and that the most significant influencing factor resulting in change is the discount factor of circa 2%. The group, whilst acknowledging this, all agreed that it was the pension valuation as a post balance sheet event that needed to be better understood by governors, albeit that this could just be an internal consideration.

Executive Director: Finance indicated that the only other influencing factor which could impact on pensions is the potential ONS reclassification of colleges as being in the public sector. He indicated that, if this was the decision, then any debt owed by colleges would be considered to be public debt and would be underwritten by the government.

Challenge from the group was for external auditors and the Executive Director: Finance to at least have a call with the pension actuaries to see what their view of the shift is and then it will be possible to assess whether it should be noted as a post balance sheet event (EA's/ED: Finance, November 2022). It was confirmed that the ONS announcement is due next week and therefore an update on this can be given as part of the report to the board on 12th December 2022 (ED: Finance, 12th December 2022).

Challenge from one governor was to ensure consistency of language in terms of 'group' and 'college' within the document.

In relation to the physical auditing of fixed assets, one member of the group asked whether this has been done post-merger and also how frequent auditing is considered to be best practice. Staff advised that the last physical check was completed in 2019. Challenge from governors was the need to recognise both disposals and additions and all felt that there should be sampling undertaken annually, which is then tested by either the internal or external auditors. Executive Director: Finance confirmed that this would be built in to the plan for 2022/23. Comment from external auditors was the need to improve the maintenance of the fixed asset register so that it is always accurate and easily accessible.

AGREED: to note the content of the draft 2021/22 Financial Statements Audit Management Letter.

5 2021/22 Members Report and Financial Statements

The Executive Director: Finance introduced this item and it was agreed to take the content 'as read' and move to questions and observations. He reminded that it was currently still in draft form and that he would be looking for an 'in principle recommendation' to the board for approval at this stage. He confirmed that any changes would need to be made on or before the 5th December so that the final version is then ready to be circulated in advance of the board meeting on 12th December.

In general discussion there were a number of comments and observations made, including:

- In the mitigation section, should there be a reference included to regular meetings with the ESFA and FEC as part of the PIMS process. Additional mitigation is also the development of the estates strategy which is underway.
- On page 12 there is a comment that 'achievement rates remain high' – governors questioned whether this was correct. It was felt that there was a need to rephrase this as achievement rates are not high across all areas of provision. It was agreed that staff would review this and potentially reflect upon any feedback received during the Ofsted inspection.
- Page 9 gives a clear steer in terms of the reference made to cost savings required to respond to learner numbers

- Group needs to create a reserves policy which will sit alongside the budget setting strategy. Executive Director Finance confirmed that this was planned for early 2023 (Executive Director: Finance, January 2023)
- Page 10 makes it clear that the group needs to better understand learner graphics which is something that has been discussed recently
- Key matters to address in the short term are reducing costs and ensuring that there is effective marketing
- In relation to page 12, capital expenditure is largely on hold. Group is waiting to be in a better financial position, however assurance was given that essential works required are taking place.
- Group considered whether the Ofsted rating included within the document could be updated following the outcome of reinspection this week. Staff advised that if there were to be a change in rating it is unlikely that the group will know officially before signoff at the December board meeting.
- Query was raised in terms of the future student number predictions and it was explained that these are included within the Going Concern report to be considered later in the meeting. It was agreed that full details on these would be provided at the next meeting of the F&R Committee (Executive Director Finance, December 2022).
- In relation to the Kiveton site sale, staff are hopeful that legal contracts will be concluded next week.
- Clarity was requested in relation to the staff cost to income ratio. Executive Director: Finance reminded that he is proposing 66% in the budget setting strategy. This is because of the impact of increased costs and lower income. Challenge from the group was that, as 65% is set as the current KPI group needs to be assured that this isn't a PIMS target that has to be achieved. CEO was able to confirm that no specific PIMS target was set in relation to this ratio, although acknowledged that it was a guideline.
- Reserves position has moved from -£7.5 million to +£28 million however the revenue deficit position is -£4 million improving to -£3.7 million.
- Challenge from one governor was in relation to the low cash point position and she noted that there were different figures provided within the consolidated accounts and the going concern paper. Executive Director: Finance confirmed that he would check this.

Governors were all thanked for their comments and observations at the meeting and it was agreed that any further comments or suggested typographical changes would be communicated by email. These to be provided by the end of November 2022 so that the document can be updated and a final version circulated to board on 5th December 2022 (Governors, November 2022).

AGREED: subject to the comments and observations made at the meeting and expected via email, to in principle recommend that the board approve the 2021/22 Members Report and Financial Statements.

6 Review of Going Concern

Executive Director: Finance introduced this draft document and he reminded that, at the workshop meeting on Monday, governors and the executive had identified the need to make significant savings with the figure in 2022/23 being £1.5 million. This will be achieved in a number of ways, including:

- 10% on non staff costs
- Savings associated with the use of catch up coaches at circa £400k
- Review of current vacancies which stand at £2 million at any one point in time. It is believed that savings of circa £500k can be made.
- Between now and July 2023 the group needs to identify further staffing savings of £800k

- Benchmarks show that the first area of focus should be administration and business support functions, both in terms of staffing and systems.

All agreed that the budget setting strategy is a key document to share with staff to fully explain the current position and need for changes, this is particularly important regarding the use of public funds. Executive Director: Finance expressed the view that, if the group can achieve the strategy, then it will be in a positive position moving forward in to the medium term.

Question from one governor was in relation to page 7 and the strategic objective regarding 'pay costs to income ratio'. They asked why it is 66% excluding AEB. Executive Director: Finance indicated that, if AEB is not excluded then it would look more favourable than it actually is. Challenge from governors was whether or not it should more specifically read the subcontracting element of AEB and not the entirety of AEB. This was agreed. One governor asked whether the group has historically included or excluded subcontracting AEB from the calculations. Executive Director: Finance indicated that, previously both have been reported and that the correct declaration to be made is without subcontracting being included.

Question from the group was in relation to cash days and the clarification requested earlier in the week. This is that, the 30 days referred to should be a minimum at one point in the year and only at March which is the lowest known point, but that at other points in the year it should be more.

One governor commented regarding page 13 and the mitigations table. They specifically asked whether the mitigation description regarding lower HE enrolment was actually mitigation. Executive Director: Finance acknowledged that it isn't really a mitigation descriptor and that instead, what the group is highlighting is the fact that there are likely to be higher costs than income as the group cannot change the staffing structure and has to absorb the position in relation to lower HE student numbers.

Group asked for clarity in terms of what auditors need from the group to be able to satisfy them in terms of the organisation continuing to be a going concern. They advised that it was sight of the final paper and also the KPIs that are to be set. They would want to analyse and potentially challenge some of the sensitivities and mitigating actions proposed. External auditors confirmed that they do have comfort that there are plans in place to address the challenges that are known and that they are comfortable that, unless something significant 'comes out of the woodwork', they will be able to sign off the view of going concern. They indicated that, one outstanding element is the year on year learner numbers and it was explained that these are just awaited from the MIS team who have been tied up with Ofsted inspection this week.

Group noted that this was a draft report and that there were some elements outstanding, however felt that they could in principle support the content as drafted.

AGREED: in principle, subject to final update proposed, to recommend that the board confirm that the group remains a Going Concern.

7 Letter of Representation 2021/22

Executive Director: Finance introduced this item and explained that this is a letter required from RNN to external auditors and relates to disclosure requirements and compliance. He explained that it was in a standard form. External auditors confirmed that, in the main, the content is standard however there are some specific RNN elements and an example given was in relation to the intercompany loan with NFPC. Executive Director: Finance confirmed that all disclosures required have been made and that there are no instances of fraud or misstatement.

One governor made reference to paragraph 10 and the wording around 'uncorrected misstatements' and queried whether this was correct. External auditors indicated that, whilst there were some uncorrected misstatements they were not considered material and relate to the subsidiary company.

AGREED: to recommend that the board and sign the Letter of Representation for 2021/22.

8 Regularity Self-Assessment Questionnaire

Executive Director: Finance presented the draft and explained that this was a document required by external auditors as part of the yearend review, again to give confidence and assurance regarding a number of aspects of the audit. Governors noted that the governance section was still to be completed and, in relation to those aspects, it was confirmed that:

- Group/board has completed an annual self-assessment and it was explained that the content of this is included within the Self-Assessment Report which was recently considered at a scrutiny meeting and is due to be presented to both Quality and Standards Committee on 1st December and then Board on 12th December 2022.
- Self-assessment for 2021/22 has been completed internally rather than an external board review. It was confirmed that an external board review is scheduled for 2023 and therefore will be reported in the next set of annual accounts.
- Question raised was in relation to page 10 of the document and the note in the relation to cyber security. Executive Director: Finance explained that this particular section refers to physical assets. It was confirmed that there have been no cyber breaches. Group were given assurance that the issues identified within the internal audit report for the year do not impact upon the accuracy of the questionnaire content completed.

Subject to the additions suggested and agreed at the meeting today, it was agreed to recommend for board approval. It was agreed that this would be sent out via written resolution so that it could be signed and sent to auditors and thereby addressing one of the outstanding aspects that they referred to earlier. Governors at the meeting today all agreed that they were happy with the content and would recommend for full board approval. Director of Governance noted that the number of governors present at the meeting today was sufficient to meet the quorum requirements for approval.

AGREED: subject to the amendments discussed, recommend that the board approve.

9 Letter of Support for Subsidiary Companies

The Executive Director: Finance presented this draft document and confirmed that it is required and explains that the group will continue to financially support NFPC Limited so that it remains a going concern. It was agreed that proposals regarding a loan repayment plan from NFPC will be scheduled as a future agenda item for the Finance and Resources Committee. Janet Pryke, who is a Director on NFPC, confirmed that in the next financial year the company should start to be able to restart repayments. All agreed that as a group they would not want to write off the debt and it was noted that in fact NFPC are keen to repay and therefore this is something to consider in 2023.

Group were advised that a simple letter of support would also be required for RES Limited, given that they have ended the 2021/22 year with a small deficit. This is something that will be presented to the board on the 12th December for approval.

AGREED: to recommend the Letter of Support for NFPC Limited as presented.

10 Audit Committees Annual Report for 2021/22 (Draft)

The Director of Governance introduced this item and summarised each of the sections as presented. In relation to section 2.1, she confirmed that she had now received details of the audit fees and would insert in the next version. Committee considered the content and a number of points were highlighted.

- One or two occasions where the date referred to is 2020/21 and not 2021/22
- 3.3 is a potential duplication

Director of Governance confirmed that she would review and ensure any typographical errors were addressed and missing information provided. Subject to these changes and additions, committee were happy to approve for presentation to the board.

AGREED: to approve the content of the Audit Committees Annual Report for 2021/22.

11 AOC Code of Good Governance Compliance Report for 2021/22

Director of Governance advised that the board has to report on compliance against any governance code that has been adopted. She reminded that there had been a significant piece of internal audit work completed in the year to assess compliance against the 'musts' in the code. This audit was undertaken in May 2022 and there were six areas identified as requiring further action. She referred governors' attention to the table which provides an update in relation to each. It was confirmed that three are completed, one will be completed at the board meeting on 12th December, one is scheduled to take place in 2023 and one requires further work i.e. the creation of a publication scheme on the group website. She explained the influencing factors for the time taken to display the publication scheme but provided assurance that work was well in hand.

AGREED: to note the content of the update provided.

12 Internal Audit 2022/23

Internal auditors provided an update on two aspects.

1) Progress update for the year – key matters highlighted were:

- All fieldwork dates have been agreed and are in the diary
- Planning is well underway
- One report finalised in relation to Health and Safety, with a focus on gas safety and fire safety
- Scoping document for the next planned audit which is budget monitoring has been finalised. Report will go to the next meeting of the Audit Committee.
- Update provides detail regarding some sector developments

2) Health and Safety internal audit report – key matters highlighted were:

- Summary is provided on page 4
- RAG rating is amber which is reasonable assurance. This is because of the number and categorisation of issues and recommendations made.
- There were two medium and two low priority recommendations made. All were accepted and there is an agreed plan to address.
- In terms of the findings, it was explained that following testing there were:
  1) A number of anomalies and disparities in terms of the certificates that could be evidenced. Management have agreed to undertake quality checks and put a system in place which generates reminders. This is a medium priority recommendation.

2) There were a number of remedial actions needed following testing, however they were not placed on the log so as to be able to track. Management do have a solution which will be adopted. This is a medium priority recommendation.
3) There were two low priority recommendations, the first in relation to out of date policies and procedures and the second in relation to the board needing an annual report in relation to compliance.

Auditors expressed the view that, overall this was a positive result given that there are lots of transactional actions and activities considered as part of this type of audit.

One governor asked for clarification on the significance of the sample size and queried whether, if an action was not put on to the log, it meant that the action hadn't been taken. Executive Director: Finance indicated that the sector has now been provided with a full register and report template which is really helpful and that the intention is to use this as an initial audit tool and then compliance tracker. He specifically referenced the note regarding fixed testing electrical work and explained that staff believe that the remedial works were completed however were not recertified. To ensure complete compliance, the team are now following up with new tests which will be certified. He indicated that there were also some typographical errors included within the logs e.g. incorrect months referred to. These have been sampled and addressed.

Question and challenge from the group was in terms of senior team confidence regarding general levels of recording within the organisation. They asked whether there is a requirement to check 'everything' rather than simply 'sample'. Executive Director: Finance indicated that he has reasonable assurance on the basis of the checks completed so far and therefore felt that sampling continued to be appropriate.

In terms of the FE Estates Planning tool (FEEP) report it was agreed that at the December board meeting the Executive Director Finance would provide a summary of the cycle of activity envisaged and planned and then the annual compliance report would come to board in April 2023 and would sit alongside the updated Estates Strategy being created (Executive Director: Finance, December 2022 and April 2023).

In terms of the four actions agreed, governors questioned when they were due to be completed. Executive Director: Finance confirmed that they are all January 2023. He provided assurance that they are all already logged on the risk register.

AGREED: to note the content of the update provided.

13 Emerging Risks

The Executive Director: Finance drew governors' attention to the update provided and highlighted a number of emerging areas, including:

- Need to include ONS reclassification as a risk. This may mean more regulation as a result of the sector forming part of the whole governments accounts. This may impact on the timings of certain pieces of work. There are risks in relation to costs associated with additional time taken on accounts reporting, however there may be benefits from more preferential tax treatments. All agreed that it was important to be able to monitor the announcement expected next week and then provide a report to the board on implications.
- Cost of living challenges – there will be a need to continually monitor budgets and examples given were in terms of purchases and whether costs are

increasing in relation to these, and also the contracts register and whether or not any savings can be made.

- Staffing position as a result of the cost of living crisis i.e. group may lose some staff if they choose to move to other employment for a higher salary.
- The need for HR restructuring – this is to address:
  - Lower than planned student numbers
  - Need to review the administration functions to align with student numbers
  - Group has been able to manage curriculum and business staff costs
  - Anticipation is to have a plan by 31st January 2023.

In general discussion, one governor suggested that within the risk identified in relation to 'learner numbers' there needs to be something included regarding the impact of the cost of living crisis on students including withdrawals, mental health requirements, bursary needs and travel to learn costs. CEO advised that the group has recently completed a student survey with learners so does have some information in relation to this, particularly as the challenges impact upon attendance as well.

AGREED: to note the content of the update provided.

14 AOB

There were no items of additional business.

15 Date and time of next meeting

Director of Governance confirmed that the next joint meeting would be in November or December 2023. All acknowledged that prior to that there were separate meetings planned regularly for both Finance & Resources and Audit & Risk Committee.

16 Confidential items

It was agreed that confidential items would be recorded on a separate basis.

The meeting closed at 6.50pm.

Signed ___________________________________ Chair

Date ___________________________________