

# AGENDA; AUDIT AND RISK ASSURANCE COMMITTEE

Tuesday 12 March 2024 at 5.30pm in Suite 2 of the Employer Hub

In Attendance: Marc Harvey ® (ICCA, Internal Audit Partner)

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*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. Welcome and Apologies for Absence**

**2. 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.*

**3. Draft Minutes of the Audit and Risk Assurance Committee Meeting held on 28 November 2023** (Paper LMC/A/08/23 refers) *(for approval)*

**4. Matters Arising**

- **Committee Action Checklist** (Paper LMC/A/09/23 refers) *(for agreement)*

**5. Internal Audit Reports:**

- **Marketing Strategy Report** (Paper LMC/A/10/23 refers) *(for discussion)*

**6. Report on Risk Management, including In-Depth Review of College Risk Register** (Paper LMC/A/11/23 refers) *(for discussion)*

**7. Review of Agreed Actions on Audit Recommendations** (Paper LMC/A/12/23 refers) *(for discussion)*

**8. Any Other Business**

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

**10. Date and Time of Next Meeting**

Tuesday 25 June 2024 at 5.30pm

## **NON-CONFIDENTIAL MINUTES OF THE AUDIT AND RISK ASSURANCE COMMITTEE MEETING HELD ON 12 MARCH 2024**

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<b>Present:</b>	Steve Wood ( <i>Chair</i> ) )	
	Sarah-Jane Fletcher )	External Governors
	Gary White )	
<b>In attendance:</b>	Marc Harvey ®	Head of Internal Audit, ICCA ( <i>Internal Audit Services</i> )
	Peter France	Vice-Principal Finance and Resources
	Oona Cushen	Governance Adviser and Clerk

® - joined remotely

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### **WELCOME AND APOLOGIES FOR ABSENCE**

A/23/046 The Chair welcomed Marc Harvey, Head of Internal Audit at ICCA to the meeting. There were no apologies for absence. Membership of the Committee will be formally reviewed for 2024/25.

### **DECLARATIONS OF CONFLICT OF INTERESTS**

A/23/047 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 28 NOVEMBER 2023**

A/23/048 The Chair referred members to paper LMC/A/08/23 and advised that no amendments had been received.

**A/23/049 The minutes of the previous meeting held on 28 November 2023, paper LMC/A/08/23, were agreed as a true and accurate record.**

### **MATTERS ARISING**

#### Committee Action Checklist

A/23/050 The Governance Adviser referred members to paper LMC/A/09/23 and advised that the action was complete and the new devolved register would be reviewed under agenda item six.

**A/23/051 The Committee discussed and agreed the Committee Action Checklist; paper LMC/A/09/23.**

### **INTERNAL AUDIT REPORT; MARKETING STRATEGY**

A/23/052 The Internal Auditor referred Governors to paper LMC/A/10/23 and advised that this first completed audit was undertaken by one of ICCA's senior advisers. This was a strong report with full substantial assurance. The scope of the review focused on a review of structure to thoroughly understand the internal structure of marketing, alongside processes, policies and controls. The review also looked at the marketing strategy and how that fit with College expectations, analysis of the market, marketing events delivered by the College and feedback on all of the marketing activity and how that is reported across teams and upwards to managers and Governors.

A/23/053 There was one advisory recommendation to ensure that the relevant headline key performance indicators within the College Quality Improvement Plan are cascaded down to the team's quality improvement and actions plans, to ensure everyone is working towards the same measurable targets and these are clear to staff. Management have accepted the advisory recommendation and are in agreement with the proposed action. Overall, this was a very strong review.

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

A/23/054 The Chair of the Committee had highlighted many positives within his copy of the report, and this will be circulated with the minutes. The detail within the report was very thorough, and Governors agreed that this was a very good report. From the College's perspective, the coverage of work being done is very good. The internal auditor advised that similar audits are carried out for other colleges across the country with valid recommendations, and that this was a strong report.

A/23/055 The auditor advised that the audit on the College's 14-16 provision has been completed, and a draft report issued to the College. The report will be finalised once the management response has been received. The audit on Additional Learning Support was deferred to later in the academic year, to allow for the recruitment of a new Additional Learning Support Manager.

**A/23/056 The Committee received and discussed the Internal Audit Report; Marketing Strategy, paper LMC/A/10/23.**

*ACTION: Governance Adviser to circulate the Chair's copy of the audit report, highlighting the many positive outcomes from this report.*

## **REPORT ON RISK MANAGEMENT, INCLUDING IN-DEPTH REVIEW OF COLLEGE RISK REGISTER**

A/23/057 The Vice Principal Finance and Resources referred Governors to paper LMC/A/11/23 and advised that the full risk register, comprising the main and devolved registers was attached to the email to allow Governors to use the filters. It was suggested that the Committee reviews not only the net significant risks, but also those graded contingency, as well as the new capital project register.

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

A/23/058 Risk 1.00; failure to appoint Governors with relevant skills and experience. This has remained a significant risk, even with the appointment of three new Governors as the Board still needs to recruit a permanent Chair from 2024/25 onwards. There are currently two options, but the most likely is the application to the FE Commissioner's office for support with paid recruitment.

A/23/059 Risk 1.06; reclassification to the public sector by the Office for National Statistics (ONS). The immediate changes to borrowing rules and senior pay controls have not impacted LMC as the thresholds are above the College position. It remains a significant risk as this is still a transition year and there may be further changes still to be introduced. There was a suggestion that the Department for Education (DfE) may take back college cash reserves across the sector. The Association of Colleges (AoC), however, has advised that this is unlikely to happen within the next year or two, as it would require a Government White Paper. The College will have a full capital strategy in place by the end of this year to mitigate any cash reserve holdings.

- A/23/060 Risk 2.02; failure to meet funding targets. This remains a key risk as, although the College is ahead on its 16-18 recruitment, it has suffered a reduction in both apprenticeship and Higher Education (HE) recruitment. Although there is a strong marketing strategy, which is effectively a recruitment strategy, there is not the same numbers enrolling into colleges, even though demographics are not reducing. There is a national recruitment issue and, in particular, around apprenticeships and adults. The College recruited an additional 170 16-18 learners this year, but there was a large reduction in apprenticeships, which mirrors the national trend. Reasons for this include an increase in the minimum wage, cessation of employer incentives, as well as the College's conscious decision to stop delivering the residential childcare apprenticeship for quality reasons. This particular apprenticeship accounted for circa 100 starts. Higher Education (HE) is much more specific. The curriculum plan was put together with EDF, but the firm has not progressed with all the courses that it planned to do this year, so numbers have fallen. Planning has been re-aligned next year to reflect growth, but in the right areas. The College will also be more prudent in next year's budget, particular for apprenticeship income. Although the College is working hard to improve, there is no real evidence that apprenticeship recruitment will increase, based on current economic factors. The marketing strategy is in place, the College is investing in the right areas and has ambitious branding for the College, but is still not meeting targets due to changes in the environment. Targets need to be re-aligned to reflect that. There is also a similar position with the Access to Higher Education (HE) course, which is following the same trend as apprenticeships. Adults are not leaving work to go into education due to economic factors, but this is a national trend. Other curriculum areas are increasing in numbers and the budget should reflect that. Marketing is focused on a broad spectrum, but the balance could be re-aligned to recruit more in the right areas. When the apprenticeship and adult targets are set for next year, there will be a much more prudent approach on which to base the forecast.
- A/23/061 There is a huge demand for school placements but, as recently discussed by the full Board, the College does not yet have the infrastructure to expand this provision and there will need to be further discussion around capacity and strategic intent on whether resources should be re-allocated to do this. It may be worth investing in this resource, but the educational character of the institution has also to be considered. The Student Governor, at the recent Board meeting, advised that students work hard to come to College as it is a more adult environment, but others come here as 'punishment' for not attending school. There is a wider strategic decision to be considered, taking into account reputational risk. The positive 16-18 recruitment story should be promoted internally to current students, to make the College a more popular choice. It is discussed with students, although it does come with its own challenges, e.g. lack of social space, capacity in the Lounge etc., so it is a hard win.
- A/23/062 In regard to apprenticeships, recruitment is a dual approach. Learners can apply direct to the College for an apprenticeships and the team will then try to match them to an employer, or learners who already have an employer can apply to join an apprenticeship. The Engagement Team also go out to employers to market apprenticeship places and then try to recruit learners to match those vacancies. Generally, 16-18 learners come direct to College, whereas adults already have an employer and just looking for the College to deliver the apprenticeship.
- A/23/063 Risk 2.07; risk of disruption following a critical incident. This originally related to the Covid pandemic, but has remained in the register on a wider basis. The College is updated regularly by the Police around local risks, as well as the national treat level etc. There are local Prevent issues, so this risk is recognised and the College will continue with Prevent training and all other measures. The Critical Incident Plan is the same as a business continuity plan, but is used more as a repository of information rather than a prescriptive checklist. It is more generic to enable staff to navigate through actions, e.g. key contacts, who to notify, media messages etc. All key personnel have a home copy.

- A/23/064 Risk 2.11; projects cause disruption and distraction from main College business. The funding for several projects does impact on the ability of staff to manage multiple significant projects at the same time. More and more funding is coming through in the form of projects, rather than mainstream funding. Each project will also come with its own guidance, audit requirements, targets and deadlines etc., so there is an enormous amount of work to manage. This is an increasing risk. The senior team is reviewing the structure of the Engagement Team internally, to potentially allocate one staff member to be a project manager who would take the lead on all projects. This would apply a more structured approach. The post would also be responsible for submitting further project applications to generate more income. Project funding is a continuing trend, and so the College should put structures in place to be in a better position to manage that trend in the future. There will be project management training available to support the new post, which will be a re-allocation from an existing position. The Chair of the Committee declared an interest at this point, as such training is offered by his employer.
- A/23/065 2.14; risk that devolution will impact negatively on College finances. Devolution in Lancashire is on the horizon and will, in part, impact on LMC in regard to the Adult Education Budget (AEB). The College currently receives this funding from central Government, but it will be devolved to the local combined authority to allocate. If the authority receives commissioning powers, this may affect also affect delivery. The College is a member of The Lancashire Colleges (TLC), and this group is in dialogue with Lancashire County Council, and is well positioned. As other regions also become devolved areas, the College's ability to deliver adult education in those areas may also be affected, as separate contracts with each devolved authority would be required. For example, North Yorkshire is likely to be the next devolved area. The College is currently funded for learners residing in North Yorkshire but, following devolution, the College may not be able to deliver to these learners unless it has a separate delivery contract with North Yorkshire. The team has modelled its current enrolment by geography, and is looking for other income streams to potentially replace any reduced income. The UK Shared Prosperity Fund (UKPSF) project is to specifically engage adults and onto Adult Education Budget (AEB) courses. In some ways, crossover is fairly limited, but there are colleges that operate under several combined authorities, e.g. Runshaw College recruits from Greater Manchester, Merseyside and Lancashire and will require separate agreements with each as opposed to one central contract with the Education and Skills Funding Agency (ESFA). The internal auditor advised that funding regulations may also vary slightly and that is a risk to keep under review. It would be useful for one of the changes to be that funding follows the learner, rather than be based on where they live. Specialist providers will have to negotiate for contracts. There is also a risk that funding will be based on Local Skills Improvement Plans (LSIPs) and skills areas based on geographical location, rather than a learner being able to choose their provide of choice. There is also likely to be additional 'top slicing' through multiple provider contracts, so less funding become available for 'grass roots' delivery.
- A/23/066 Risk 3.09; impact of local and national education reform, particularly qualification reform as the Government introduces more T Level qualifications and defund some existing Level 2 and 3 qualifications. In some cases, the qualifications have been defunded even though there is not yet an alternative offer. Awarding Organisations (AOs) are not yet able to advise on the development of new qualifications. There is a new reValidation process for qualifications, so qualification providers do not yet know what to advise as only certain level qualifications have been released by the Institute for Apprenticeships and Technical Education (IfATE). This makes planning for the next two years extremely difficult. As a result, this remains a gross significant and net contingency risk as it will depend on how much of the College's provision will be affected as there is a lot of exempt provision. This will be clarified within curriculum planning, but could be significant. Governors suggested that if it is borderline, the net risk should be upgraded to significant.



- A/23/067 Next year, the Level 2 Motor Vehicle course, delivered by Lancaster Training Services (LTS) under subcontract will be defunded. The College will need to seek a replacement qualification that delivers that skills need for learners, but there is currently no alternative available. The qualification reforms will streamline the provision of qualifications, but there should always be an alternative available for those qualifications being defunded.
- A/23/068 Risk 3.13; maths and English achievement rates fall below national standards. There are national issues, but the maths achievement at LMC, relative to the sector, were good but still low overall. English achievement at LMC remains around or below the national average, so this is highlighted as a risk. The senior team had spent much time on reviewing this provision and have proceeded to convert E Block into a maths and English hub to provide a better environment for delivery. There will be some disruption in regard to the T Level building works over the next 12 months with the loss of two floors of C Block, so this is a net contingency risk. The Director of Curriculum and Innovation has re-timetabled all affected groups. The noise and vibration will also impact a further two floors below, so this will be decommissioned at the same time. There has been much re-timetabling needed to find space for everyone, which has been very challenging at a time when learner numbers are increasing.
- A/23/069 Risk 4.00; risk that the College does not attain good financial health. When the Risk Management Group reviewed this, it was borderline net contingency. Since that meeting, the College has received an increase in its 16-18 allocation through in-year growth, so the College is more confident that good financial health should be achieved. The additional funding means that this net risk may be lowered, as the probability of not achieving good financial health has reduced. This will remain under review throughout the year. The clawback on last year's Adult Education Budget (AEB) has already been completed. The College does get an Adult Education Budget (AEB) allocation this year, but has not budgeted on the full allocation. In regard to the retirement of the Finance Manager in June 2024, the College has recently completed a recruitment exercise. There was a 'good fit' candidate and a provisional offer has been made, but acceptance of this has not yet been confirmed. If accepted, there should be around a six-week handover period, which would allow the new staff member time to learner College systems and processes from the current Finance Manager.
- A/23/070 The Committee also reviewed the new devolved register in relation to capital projects. There were four risks on the register:
- Risk 11.00; risk that the reduction in teaching and staff space during the building project impacts negatively on the learner experience. Although this is referred to within the main College register, this risk has been specifically nuanced around the impact on learner experience.
  - Risk 11.01; risk of overspend on capital projects against budget. This is a key risk as prices increase throughout a project timeframe. The scope of projects also tends to expand, but this was mitigated by the Board to allow for a 10% contingency on each future project. The original T Level project bid was to refurbish the two floors of C Block and one floor of B Block and the grant was provided for this. When the surveyor undertook the feasibility study, it was suggested that it would make sense to complete the roof repairs to this building at the same time as there are some leaks. It would also make sense to replace the windows as the scaffolding would already be in place to do this. These works were outside of the original project costs, so would need to be approved as separate projects. Not all the tenders for the work have yet been received, but contractors were asked to tender for all works, not just the T Level works. The Board will then need to decide what can and cannot be done to stay within the funding approved by the Board. It would be helpful for Governors to have the additional work costed separately as it is outside the scope of the original project.

- The net priority for this risk is low, but it is suggested that this should be increased to contingency, following the recent discussions at Board. Contingency funds for capital projects were discussed at the recent Board meeting, and there needs to be a realistic need for contingency, as well as looking at a project manager and a more structured and clear capital plan. The College should have a 'wish list' of works pre-costed, so that when there are tight funding submission deadlines, bids are based on more informed costings rather than just guesswork. The Vice Principal Finance and Resources advised that it is not always possible to account for potential additional spend at the outset of each project. For example, the remedial ceiling repairs required during the third floor refurbishment of D Block, as part of the Strategic Development Fund (SDF) sustainability project, were only discovered during the work. These had to be incorporated under health and safety, but could not realistically have been identified prior to the project commencement.
- Risk 11.02; risk that building works overrun resulting in classrooms not being ready for September 2024. The contractor deadline is September 2024, but the College is assuming that there may be some overrun. It is likely that new learners in September 2024 will be impacted to some degree, so timetables will be carefully reviewed for next year. The College has provided some mitigation through the relocating of maths and English provision to E Block, currently under refurbishment. The contract for the T Level work has not yet been agreed, but there could be sanctions included for late completion, although this is generally mitigated by a contractor by pricing this into the contract.
- Risk 11.03; management capacity and focus on core business is diluted due to Senior Leadership Team (SLT) input to deliver the projects. Oversight and management of capital projects is very time-consuming, and may divert staff time away from core business. This could impact on the Vice Principal Finance and Resources, curriculum and timetabling teams etc., so this is a recognised risk impacting key staff and managers. This will remain under review as several capital projects are progressed at the same time.

A/23/071 It was suggested that new risk around the health and safety aspects of capital projects should also be included. There is a risk plan under the Construction and Design Management (CDM) regulations, so this should not be a key risk. There will be an increased number of contractors on site over the summer, so there should be some acknowledgment of the risk, which may be net scored housekeeping, as the College will need to ensure all contractors do what they say they do. There is a duty on the College to ensure that contractors are competent to carry out works in a safe way and all have to comply to the Construction and Design Management (CDM) regulations. The surveyor will check this to ensure all procedures are adequate and meet standard.

A/23/072 It was noted that the risk register is very good and detailed, including the scoring system and net priorities. It was suggested that the use of a platform system may reduce the management time required to monitor and update the register. The Vice Principal Finance and Resources advised that the Risk Management Group meets three times per year to review in detail both the main and devolved risk registers. Each department is responsible for updating their own register. The document is held in a central Teams area so that everyone updates the one document. This process could be mapped on a system to risk against policy and procedures, to highlight any risk of breach or actual breach, if policies were stored on the same platform. Some systems will provide a critical pathway of processes and policies to embed, to reduce the risks of breach, rather than having to complete a manual review. Microsoft Purview is one such system and offers a free trial of its system. Monday.com is also another system that can aid a more holistic risk management approach, and can be a very good starting point to find efficiencies, wherever possible.

A/23/073 Although the systems may run more smoothly when implemented, there is normally a lot of upfront work. The internal auditor advised that he is not aware of any other colleges using similar systems to those suggested, but it would be worthwhile to review at some point in the future. Most colleges currently run a similar process to LMC.

**A/23/074 The Committee received and discussed the Report on Risk Management, including an In-Depth Review of College Risk Register, paper LMC/A/11/23, which will be presented to the Corporation.**

*ACTION: Vice Principal Finance and Resources to add in new risk to capital projects register highlighting health and safety risk due to increased number of contractors on site, with a net score of housekeeping.*

*ACTION: Vice Principal Finance and Resources to increase the net risk score from low to contingency for risk 11.01; risk of overspend on capital projects against budget.*

### **REVIEW OF AGREED ACTIONS ON AUDIT RECOMMENDATIONS**

A/23/075 The Vice Principal Finance and Resources referred Governors to paper LMC/A/12/23 and advised that the document will be fully updated with progress prior to the next meeting, as some of the comments have disappeared when different versions of the document were merged. The majority of the Adult Education Budget (AEB) recommendations will be considered within curriculum planning for next year, alongside the outcomes from the external curriculum review. The external review included mapping the current curriculum across the employment market, job demand and job outcomes, including adults and apprenticeships at all levels. It was a comprehensive report that will be used to inform future curriculum planning and all audit recommendations will be reviewed through that process. A full update will be provided at the next meeting. In regard to the Individualised Learner Record (ILR) data controls, the College is now enrolling all apprenticeships on a standardised paper form. Previously, the College used both a paper based application form and an electronic one through Smart Assessor. Teams now only use the paper version. An electronic form has been developed but the Vice Principal Progress and Performance would like to discuss with the internal auditor before bringing this into use. In the meantime, the funding rules have changed again.

**A/23/076 The Committee received and discussed the Review of Agreed Actions on Audit Recommendations; paper LMC/A/12/23.**

### **ANY OTHER BUSINESS**

A/23/077 There were no other items of business raised.

### **PRIVATE DISCUSSION BETWEEN GOVERNORS AND AUDITORS**

A/23/078 This item is a confidential item for Corporation members only, under Section 41 of the Freedom of Information Act. Paragraphs A/23/079 to A/23/081 are therefore, minuted separately.

### **DATE AND TIME OF NEXT MEETING**

A/23/082 Tuesday 25 June 2024 at 5.30pm.

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

**APPROVED ON: 25 June 2024**