Meeting of the Audit & Risk Committee

Monday 24th November at 9am
Conference Room 2
Minutes

Present: Neil Boggin (Chair), Elaine Davies (Governor), Richard Quinn (Governor), Jason Turton (CEO/Principal)

In attendance: Craig Owen (Vice Principal, and CFO), Tamara Breeze (Director of Governance and Compliance), Graham Gillespie (Internal Auditor WBG), Karen Rae (External Auditor), Niamh Holliday (Student Governor)

Finance and Resources Part of Meeting.
Present: Rob Trimble (Chair of Corporation), Jason Turton.

Key Items for reporting to Corporation

Item	**Recommendation from Committee**	**Action required by Corporation** To note/ to discuss and input/ to approve	**Links to papers**
Financial Statements 24-25	For Corporation to approve	To approve	Financial Statements Agenda Item 2454
Continued risk relating to Croga write off & potential £200k claw-back of T-level grant.	Maintain awareness for impact on forecasts via FRC	To note	
Financial position adverse to budget in month 2 of 12.	Recovery plan to be presented at next FRC meeting	To note	
Policy compliance gaps remain with actions in place to resolve	Deep dive report to be presented at March ARC	To note Link governors to support if required	
Procurement action plan	Update to be presented to Corporation in December 25	To note	

Agenda Item Number	**Description**
948	**Apologies for Absence** **John Mansergh (Chair FRC)**
949	**Declaration of Interests** None
950	**Financial Statements, Regulatory Audit and Audit Findings Report**

	The Finance Manager (FM) presented the Kendal College Statutory Accounts. Karen Rae of Armstrong Watson, External Audit Services, provided the meeting with a summary of the findings in the financial statements to end of July 2025 and presented the audit report. The statutory accounts had been prepared based on the template provided by the Association of Colleges and in line with the 2019 Statement of Recommended Practice (SORP) – Accounting for Further and Higher Education, the College Accounts Direction for 2024-25 and the Office for Students regulatory framework and accounts direction. The key performance indicators were outlined: • Operating surplus (EBITDA) as a % of income of 4.76% is below the target and prior year. • Staff costs as a percentage of income of 69.9% were slightly higher than target and higher than the prior year. • Operating cash balances and cash days in hand were above target; and • Borrowing as a % of income was slightly below target. • Student achievement improved again and was 87.4%. The DfE Financial Health Grade was expected to be Good, however, that would be confirmed by the Financial Record at the Corporation meeting of the 10th of December. The Committee were informed that the statement had been prepared on a 'going concern' basis, meaning that they assumed that the College would continue in operation for the foreseeable future (being at least 12 months from the date the accounts were issued). That approach had been agreed by governors at the July Corporation meeting, when a balanced budget was agreed for the subsequent 12-months. The Governors' Letter of Representation was to be signed by the Chair and included a statement that the board considered to be appropriate. The SORP and College Accounts Direction required that a Statement of Corporate Governance and Internal Control be included within the accounts, named as the Governance Statement. That included a declaration of compliance with the AOC Code of Good Governance 2023, details of governors who served during the year and details of the governance framework. It was noted that the details of attendance at the Search and Governance Committee were not included and that an **amendment** was required. The FM asked the Committee to review the Statement from the Audit and Risk Committee contained in the statements and asked them to satisfy themselves that they accepted that and the 'Review of Effectiveness statement', prior to full Corporation approval The statement of Governance required assurance that the Corporation conducts a self-assessment each year and that it participates in an external review every three years. The DGC stated that the External Board Review had been commissioned and was to take place from January 2026 and be reported to the Corporation in May 2026. The FM reported that the Statement of Regularity, Propriety and Compliance, that was, the declaration by both the Accounting Officer and Chair of Corporation that the College had used the funds provided to it in line with the terms and conditions under which it was provided and in line with Managing Public Money (MPM) was *very slightly* modified to state that no instances of non-compliance were identified **during the year or up to the date of the statement** as opposed to the wider statement that no non-compliance issues have been identified. This reflects the issues identified last year and continued impact on this year's accounts. The Committee members questioned this wording as the breach had been in the previous year and not in the period 24-25, the external auditor then accepted that this would be amended to state, that this was a 'prior year failure'.

	There was a discussion on whether all financial contracts and purchases were now procured in the appropriate way, and the recording of preferred suppliers was identified as an area to improve. The FM provided a comprehensive statement of income and expenditure. In the year to 31 July 2025, the College generated income of £17.9 million and incurred costs of £17.8 million, resulting in an operating surplus of £99k. That compared to an operating surplus of £277k in the prior year. Income had increased by £1.2 million (7%) compared to the prior year, primarily as a result of increased income generated from the provision of education to 16- to 18-year-olds, which rose by £0.9 million. This was matched by increases in pay expenditure as well as interest and other finance costs, following the drawdown of the new Natwest loan in the previous year. Depreciation (a non-cash cost) also increased, reflecting the higher asset base following the purchase of the Westmorland. After £16k of losses on disposals of assets of £211k of bad debt-write offs, the deficit for the year was £128k. The bad debt write off included £200k for the write-off of prepayments made to Croga in relation to the film studio, before they entered voluntary liquidation having completed only limited works, plus £10k for the write-off of wages paid to a member of staff after they were dismissed which the College has been unable to recover. These are accounting adjustments only and no further cash outlay was expected in relation to these matters. It was noted that whilst the DfE had confirmed that the write-off of the wages is within the College's delegated limits, they had been unable to give guidance on the treatment of the Croga costs as the liquidation process was ongoing. The College would need to make a submission to the DfE once the liquidation process was complete, there was a risk that the DfE seek to recover some or all the T Level Creative grant which was used to fund the film studio which would result in future losses of up to £200k. The College were working with DfE to prepare a business case to minimise that risk. The operating surplus also included a number of other accounting adjustments relating to the LGPS pension scheme, estimated holiday pay accrual, capital grant releases, and depreciation and amortisation costs. Excluding those items, the operating profit was: £732k, with the total comprehensive deficit from the period at £117k as compared to £212k in the previous year. At 31 July 2025, the College had Net Current Assets of £300k compared to Net Current Assets of £478k in the previous year. This means that the College has sufficient assets (through cash, sale of stock and recovery of debts due) to meet its liabilities or obligations due within one year. The Committee noted that the College must submit the signed, audited accounts accompanied by the external auditor's management letter (including management responses to findings raised), annual report of the Audit and Risk Committee and the College Finance Record to the DfE by 31 December 2025. The Committee thanked Elaine Gilpin (FM) for her work and her thorough presentation. The external auditor Armstrong Watson represented by Karen Rae presented their report. There were no significant issues found in relation to funding; the auditors had considered the extent to which management override was possible within the organisation and scrutinised Kendal College policies and procedures to check whether they allowed for this without due consideration and found that they did not. They asserted that controls had been strengthened to ensure regularity but that there was still some work to be done, as procurement processes became established. The external auditors noted the risk that the DFE may claw back additional funds in relation to the Croga contract the external auditor said that the DfE should consider favourably that the college had spent the grant in good faith according to the bid.

	Checks on all prepayments were now in place and would be appropriate and subject to commercial negotiations. The external auditor noted that the new system, iTrent, should prevent any future overpayment to members of staff, and this would be tested during the new system internal audit by WBG in December. The external auditor also noted the alcohol had been purchased for the Christmas staff party and this was not good practice. The Principal assured the Committee that that would not be the case this year. The external auditor also noted that although the reconciliation of catering income had been identified again by the audit team, they recognised that a new system had been implemented that should resolve prior year management report issues. The Committee accepted the findings of the audit and recommended its approval to the Corporation at the meeting of the 10th of December 2025. The Committee Chair offered an opportunity for a confidential discussion with the auditors, this was declined. Karen Rae then left the meeting.
951	**Financial Position** The FM reported to the Committee for the first time in this academic year. She noted that forecasts would be updated on a quarterly basis and accompany reports provided with the October, January, April and July accounts. However, some known changes had been reflected in the forecast full-year position, specifically: An estimated T-Level clawback of £221k, the original budget did not provide for a clawback which had been an oversight. The estimated clawback, based on R02 data, was higher than expected due to a reduction in tolerance and student numbers. The Committee members questioned why the T Level clawback had not been in the budget, this was explained as an oversight, however, the clawback was made far more significant by a late decision to move mid-course from a T Level in the Arts. The Committee challenged whether those decisions had been considered with sufficient financial oversight. The senior team predicted an increase in Local Authority High Needs Funding of approximately £100k. This was based on a review performed by David Francis, Interim Director for Inclusion, (DfI) who had identified opportunities to claim additional income. This was presented as a prudent estimate; however, the DfI had also requested a number of new roles be established within the Inclusion faculty, which would result in associated increases in pay expenditure. The Committee accepted that although positive for student experience and quality, the increased funding would not improve the financial position. The FM acknowledged that many new positions had been created and that the cost of those would be monitored carefully in the coming months with an updated forecast in the October management accounts. The CFO predicated an increase in Apprentice income of £80k, related to expected increases in inclusion income. There had been a reduction in Advanced Learner Loans, HE & HND and Tuition Fee income estimates of £55k following reforecasts prepared by CFO based on R02 data. There was a recognition of an additional £47k of DfE grants following the receipt of the Post 16 National Insurance Grant which was higher than originally estimated. There had been an increase in Museum costs of £30k to reflect the costs associated with transferring the collection from Brockhole. The Levelling Up Fund monies had still not been received and were with the council. The principal assured the Committee that the College had completed everything it needed to in order to progress the access to the fund.

	The net impact of all budget changes was to reduce the forecast year end position from £533k by £159k, to £374k. The current position was above the predicted outturn by £289k but this was due to timings of payments. **Governors requested a plan from SLT to be presented at the next meeting to recover the budgeted position.** The forecast Financial Health position remains at Good. Some reclassifications of pay and non-pay budgets had been made resulting in changes to the Administrative Staff pay, Governance non-pay, Central Admin non-pay, Marketing non-pay and Premises non-pay costs. The net impact of those was nil.
952	**MPM** Approval requested to write off debt of overpayment to an employee. Approval given after a discussion on actions taken by the college to minimise the risk of a reoccurrence**.**
953	**Minutes of the last meeting** The minutes of the meeting of the 29th of September 2025, were accepted as a true and accurate record.
954	**ARC Matters Arising and Rolling Action Plan** The Committee noted the progress of the action plan, with most items addressed in the main agenda. It was noted that: • Recruitment was in progress for a Chair of FRC, with the expectation of interviews in January. • The requested change of dates to ensure a faster response to the ESFA Mock funding audit had been actioned. • The HR policy situation was to be discussed in during the meeting • The new interim Finance Director was now in post – Gavin Teasdale
955	**Internal Audit Update** The annual report from the previous internal auditors, ICCA, was discussed by the Committee and it was noted that the variance in audit findings had increased with two audits producing high risk recommendations and low levels of assurance. One of these had been in apprenticeship provision and these had been acted on immediately by the DoC. The other, the ESFA Mock Funding Audit had resulted in high-risk recommendations, that were disputed by the CFO. The actions were accepted in part and at the request of ARC the proposed timings to resolve issues were moved forward to ensure completion of actions before the retirement of the CFO. ICCA was able to provide reasonable assurance that there were no major weaknesses in the College's risk management arrangements or systems of internal control.
956	**Compliance Report** The DGC presented the ongoing compliance report that illustrated that the Corporation were adhering to the regulatory requirements of Governance in a timely way. The outstanding policies were detailed, and it was acknowledged that legal advice had been sought to strengthen the sickness absence policy. The Protective and Premises Security Policy was significantly out of date and although the Committee acknowledged that external work was being carried out to update this, they expressed concern at the lack of timely progress. **The Committee asked for a full report on policy compliance at the March meeting.** One governor offered their support to check HR policies.
957	**Risk Management Update** The Principal presented the College Risk Register that was reviewed termly by SLT and presented to the Audit & Risk Committee and Corporation in line with the College's risk management framework. The report provided updated narrative for those risks where material operational activity or contextual changes had occurred since the previous Committee cycle. The Risk Register continued to follow the structure set out in the College's risk management documentation and the 11 risk categories used throughout the year. **No changes had been made to the individual risk ratings**.

	The Principal noted that whilst several areas had shown positive developments, such as strengthened safeguarding arrangements, improved 16–18 study programme recruitment, and progress with Estates and procurement assurance, there was **insufficient demonstrable, sustained evidence** to warrant re-grading the risks at this point in the cycle. The mitigations in place were appropriate, but the College required more; time, performance data and assurance patterns before determining whether any risk level reduction was justified. The Committee would continue to monitor those risks closely through the spring term as additional evidence become available. The top five risks were stated as; 1. **Failure to sustain high-quality learning and teaching** 2. **Failure to sustain high-quality student and stakeholder experience** 3. **Failure to meet planned budget / financial sustainability risk** 4. **Fraud and financial control failure / compliance failure** 5. **Major ICT failure disrupting college operations** Quality of learning, teaching and student experience remained the **highest institutional risk (Risks 1 & 2)**. Governors were asked to note the positive impact of CPRs, walk-throughs and KPI monitoring, but recognise that sustained evidence is still required before any downgrading of risk. The principal suggested a structured *Quality Assurance Deep Dive* in spring term, focusing on variation between curriculum areas, to strengthen Board oversight. Failure to meet the planned budget (Risk 3) remained high due to **apprenticeship income shortfalls** and ongoing accuracy issues with ILR input. Governors were asked to seek assurance that ILR reconciliation cycles are tightened, particularly given the **121 unrecorded apprenticeships** at R03. CPC-led procurement for Westmorland campus continued to strengthen assurance, Committee members would ensure appropriate representation on the steering group Major ICT failure (Risk 8) was discussed as one of the highest residual risks due to the reliance on ageing infrastructure. Governors requested confirmation of: o Delivery timeline for strengthened cyber security controls o Status of business continuity (BC) and disaster recovery (DR) testing • A digital maturity assessment (e.g. JISC) would provide an independent benchmark of readiness and resilience. It was reported that the network manager would present to SLT on the 27th of November and **this would be communicated to the Corporation**.
958	**Procurement Action Plan and progress** A verbal update was provided on progress with training and systems relating to procurement by the CFO. CPC were now being used by the college, with 4 tenders out currently. The Committee were pleased to hear that the lift at MRC was due to be replaced and that it would happen within the given timeframe to claim the grant monies. and the current CFO reference that the new interim finance director had started that day and would be responsible for financial matters until April. The Principal asked the Committee to note that a COO post was to be advertised in December, with interviews in January. The Committee asked for a **full evidenced report on procurement progress against the action plan to be presented to the Corporation meeting on the 10th of December.**
959	**AOB** The DGC asked whether the Committee would welcome the addition of complaints and compliments figures to the compliance report. This was agreed.
960	**Date of next meeting 2nd March 2026 @9am**