

## Audit Committee Minutes

Meeting held on Thursday 11<sup>th</sup> June 2020 at 5.30 pm, via Zoom

*Governors:* Stuart Blackett, Subhash Chaudhary, Richard Poundford (Chair) and Norma Wilburn (Safeguarding Link Governor)

*Apologies:* No apologies for absence from committee members

*In attendance:* Rosalind Armstrong and Ian Wallace (AuditOne); Claire Leece (RSM)

*Officials:* Phil Cook (Chief Executive Officer and Group Principal), Phil Hastie (Group Executive Director Planning and Infrastructure), Gary Potts (Group Director of Business Engagement), Fiona Sharp (Group Executive Director Finance), Kay Taylor (Group Director of HR), Sarah Thompson (Clerk) and Sam Young (Governance Support Officer)

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*The Chair welcomed members and auditors to the meeting.*

### **Audit Plan Summary**

Members **noted** the update to the Audit Plan Summary 2019-20; the Group Executive Director Finance added that all audit activity had taken place as planned.

### **A20/16 Agenda Item 1 – Standing Invitation to auditors to speak with committee members**

Auditors were invited to speak with members. The internal and external auditors confirmed that they had no issues to raise and would address agenda items as appropriate.

### **A20/17 Agenda Item 2 – Minutes of previous meeting**

The minutes of the Audit Committee meeting held on 12 March 2020 were **agreed** as an accurate record.

The Clerk confirmed that all actions were completed or not yet due. The presentation from RSM on the Further Education (FE) Statements of Recommended Practice (SORP) was an agenda item for this meeting and, due to the impact of COVID-19, the Staff Development Group had deferred discussion of fraud and irregularity training until next academic year. Progress against actions was **noted**.

**A20/18    Agenda Item 3 – Notification of Items of Other Business**

There were no items of other business notified.

**A20/19    Agenda Item 4 – Outstanding Actions Status Report**

The Group Executive Director Finance highlighted that the status reports confirmed that all agreed recommendations from internal and external audits had been implemented within the agreed timescales. She confirmed that there had been no new recommendations arising from the internal audit reports under Agenda Item 6 and Ian Wallace added that this was a rarity in the sector and of credit to Etc.

**A20/20    Agenda Item 5 – Key Issue – FE Statements of Recommended Practice**

Claire Leece from RSM gave members a presentation on the FE SORP and, in particular, key changes in the updated 2019 version. The SORP, applicable to all FE and Higher Education (HE) institutions, was based on the UK accounting standards for the corporate sector but adapted for the nuances of the education sector and, by ensuring all colleges' accounts had similar content and layout, allowed for comparability between colleges. The last FE SORP had been issued in 2015 and, in line with the triennial review of corporate accounting standards, had been updated for 2019, to be used for the first time for the financial year ending 31 July 2020.

She outlined the main changes. The treatment of gift aid donations from subsidiary companies, for example Tees Valley Catering (TVC), to a college as a charity had been clarified. Net debt reconciliation, taken out for the 2015 version, had been reinstated as part of the statement of cash flows. There was also clarification on the financial instruments note guidance brought in in 2015.

A member asked for clarification of the term 'net debt reconciliation' and Claire Leece explained that, as a college might have large cash deposits but an even larger loan liability, net debt reconciliation could indicate true financial position.

The Accounts Direction issued by the Education and Skills Funding Agency (ESFA) sat alongside the SORP and required further disclosures of items of interest to the public, in particular, remuneration of the Chief Executive and higher paid staff. The pro forma accounts, referred to as Casterbridge, were also produced as guidance on accounts' presentation. Changes to the Accounts Direction 2019-20 included moving the board statement on going concern to the annual report of the corporation and various clarifications, including some slight changes to the statement of corporate governance. From 2019-20, there would be an additional reporting requirement of a justification for the total emoluments linked to value and performance delivered, alongside an explanation of the processes adopted for judging performance, including benchmarking, for key management personnel. Claire Leece added that, until

Casterbridge was released, she could not confirm the exact format of this disclosure. In terms of the new expectation for carbon reporting, the Education and Skills Funding Agency (ESFA) would be releasing a sector-relevant model disclosure note.

The SORP had been published pre-COVID-19 and, from an auditing perspective, Claire Leece noted that going concern considerations would need to reference the impact of the pandemic. However, by the time the accounts were signed off in December, she would expect judgements to be much clearer than they might currently be. Additionally, properties not in use at the time of accounts preparation could have a lower asset value. She clarified that disclosures in the accounts, board report and accounting policies should make reference to COVID-19 and should be Etc. specific.

In response to a member's question, the Group Executive Director Planning and Infrastructure confirmed that the Group's energy use had been quantified as part of the Environmental Strategy and was at a level requiring disclosure under the new carbon reporting requirement. The Chief Executive referenced his membership of the FE Sub-Group on the Climate Commission and Claire Leece agreed to provide him with further information on carbon reporting requirements. There was discussion on the value of net debt reconciliation as a sector benchmark though it was noted that it was quite a crude measure given that large debt was often due over a long period or could represent a large capital investment and therefore not necessarily be directly comparable to the current cash balance. Claire Leece felt that a better benchmark measure of liquidity might be net current assets versus cash on the balance sheet.

Members thanked Claire Leece for her informative presentation.

*Richard Poundford left the meeting; Subhash Chaudhary took the Chair in his absence.*

## **A20/21    Agenda Item 6 – Internal Audit Plan Update and Reports**

The Group Director of Finance confirmed that the Safeguarding internal audit had been scheduled for the week beginning 22<sup>nd</sup> June. Rosalind Armstrong, Audit Manager AuditOne, confirmed that the following four internal audits had now been completed and final reports circulated with the meeting papers.

### **6.1 – Payroll and Expenses**

### **6.2 – Risk Management**

### **6.3 – Subcontracting Controls**

### **6.4 – Distance Learning**

All audits had provided substantial assurance that the risks identified were managed effectively and compliance with the control framework was found to be taking place;

there had only been two low risk recommendations, both of which had been implemented prior to publication of the Distance Learning final audit report. She added that the Distance Learning internal audit report had been amended to reflect correct terminology on the front cover and re-issued on 4<sup>th</sup> June. In conclusion, she noted that the switch to remote audit had worked well; work was due to start on the Cyber Security audit the second week in July and the last piece of evidence for the Follow Up audit had been received that afternoon. Final reports would be circulated to Audit Committee members upon issue.

The Chief Executive outlined the focus of the Safeguarding audit and, in particular the need for governors to gain assurance that the information held in the Single Central Record (SCR) was robust and accurate before transfer to a new, more efficient, software system. The Group Director of HR and the Group Vice Principal Curriculum and Development would discuss the audit brief with the Safeguarding Link Governor.

A member commented that this set of audit reports was a credit to the senior management team and asked which had taken place remotely. Rosalind Armstrong confirmed that both the Subcontracting Controls and Follow Up audits had been undertaken completely remotely with secure transfer of electronic information; the possibility of some work on site was currently under review.

Members **noted** the Final Internal Audit reports for Payroll and Expenses, Risk Management, Subcontracting Controls and Distance Learning and progress on the Internal Audit Plan 2019-20.

*Richard Poundford re-joined the meeting and took the Chair.*

## **A20/22    Agenda Item 7 – Risk Management**

The Group Executive Director Planning and Infrastructure explained that the Risk Register circulated with the papers was specific to risks arising from COVID-19 in 2020-21. This had already been considered by the FE Corporation and his report summarised the key updates. Of particular note, the risk relating to bank covenants had decreased to a medium 'net' risk based on the latest forecasts for 2019-20 and 2020-21 which suggested compliance in both years. The 'net' risk of a decrease in group income remained significant; there were clear reporting mechanisms to governors, including detailed consideration by the Finance and Employment Committee. The 'Re-opening' Risk Assessment and Action Plan, referenced at the Special FE Corporation meeting, had also been included as an appendix. A meeting had been held with unions the previous week and recommendations, including reducing shared use of resources and receptionists signing visitors in, incorporated into an updated plan. He added that participation in the Association of Colleges' (AoC's) working group on re-opening had been useful and that joint union/AoC

guidance including a checklist was due to be published.

The Chair commented on the thoroughness of the work on 're-opening' plans, given the constantly changing guidance, and noted the value of external advice and making use of national networks. He added that there had been valuable input from governors working in different sectors at the Special FE Corporation.

A member commented on the possible long-term effect of COVID-19 and asked if this could have an impact on recruitment to some curriculum areas, for example, tourism and theatre. The Group Executive Director Planning and Infrastructure felt that, as yet, there had been no negative impact on 16 – 18 recruitment and there was optimism about demand for 'licence to practice' courses in the short term; it was still difficult to predict the longer term effects on study programme, apprenticeships, HE and commercial courses. The Chief Executive added that the Tees Valley Combined Authority (TVCA) was developing forecasts for the Tees Valley economy post-COVID. Heads of department were already being asked to make strategic forecasts for their curriculum areas in order to inform budgets and mitigate risk. The Group Director of Business Engagement indicated that the peak in apprenticeship recruitment usually seen in September was predicted to be pushed back by several months and, in order to minimise the risk of poor retention, applicants would be given comprehensive advice and guidance to assess their suitability for their chosen apprenticeship. Members discussed the importance and challenge of forecasting curriculum growth areas, the role of heads of department in decision-making and the need for identifying potential new markets for future investment.

Members **noted** the progress of risk monitoring in light of COVID-19.

#### **A20/23    Agenda Item 8 – Fraud and Regularity Update**

The Group Executive Director Finance confirmed that there had been no fraud and regularity issues. Members **noted** the update.

#### **A20/24    Agenda Item 9 – External Audit Strategy for 2019-20 final accounts**

Claire Leece confirmed that, having already had a preliminary meeting with the Group Executive Director Finance, presentation to this committee of the planned scope and timing of work for the External Audit Plan was the next stage in formalising the process. The planned scope, as in previous years, would incorporate an audit opinion on financial statements and take a regularity limited assurance approach. It would also include a review of the work of internal audit for the year; she had already received a level of assurance through AuditOne's reports to the Audit Committee. In terms of timing, there would be a further report to the October Audit Committee meeting, at which time audit fieldwork would have commenced, with findings

presented to the November meeting in time for completion in December. References to work onsite had been removed from the timetable as there was a high likelihood that RSM's work would need to be carried out remotely; she acknowledged that, although remote audit was effective, it could take longer and cause some frustrations for the client. Although the corporate sector had been granted a three-month extension to file end of year accounts, there had been no change in the ESFA's deadline.

In terms of RSM's approach to key risks, Claire Leece noted that the key change from the previous year was the removal of merger as an area of audit focus. The five key risk areas (income recognition, management override of internal controls, pension scheme liability, going concern, Transaction Unit (TU) grant) had all been detailed with RSM's response. The timely transfer of free school meal income to TVC had been identified as a risk area during the previous year's audit; management had confirmed that the monthly cash transfer was now taking place but the timing of cash transfers would be reviewed as part of this year's audit. She confirmed that the fees remained as agreed in the tender document and outlined the notes on her personal and RSM's independence.

The Chief Executive drew to the auditors' attention his involvement in bodies external to Etc. (National Leader for Further Education, Ofsted Complaints Panel member, and national representation on the Independent Commission, Sub-Group, *The College of the Future* and the Independent Commission, FE Sub-Group, *Climate Commission*).

In response to Claire Leece, members **confirmed** that they had no other areas of concern to raise and no concerns about fraud at Etc.

Claire Leece highlighted that, as in previous years, Further Education Emerging Issues had been included as Appendix 2. Given the fast-moving nature of matters in relation to COVID-19, there was a short written statement but it had been felt that specific details would rapidly go out of date. She advised members to use the document as a tool in bite size chunks and to ask Etc. managers for clarification on issues as needed. Of particular note, and given increased scrutiny in the sector, governors should seek assurance that Etc. had robust processes in place for subcontracting. The Digital Experience survey by JISC had noted key findings for the FE sector but these had most likely been superseded by recent events and the need for a rapid switch to digital provision. In terms of strategic fraud risk assessment, Claire Leece confirmed that, while Etc. already had a Fraud Strategy, the Board should review against the checklist provided on page 7 of the Emerging Issues document.

The Chair commented that the Emerging Issues document covered a wide range of issues concisely, of which subcontracting and T-Levels were of particular interest. He

agreed that, although much work had been done on fraud, the checklist would be helpful as another level of assurance. The Group Executive Director Planning and Infrastructure confirmed that Etc. had submitted an expression of interest in the third wave of T-Level delivery and had been successful.

Members **agreed** the External Audit Strategy for the 2019-20 final accounts .

*Rosalind Armstrong, Claire Leece and Ian Wallace left the meeting.*

**A20/25    Agenda Item 10 – Internal Auditor Appointment and Update re 2020-21 Internal Audit Strategy**

The Chair confirmed for members that, although appointed on a three-year contract, the performance of the internal audit service was assessed annually and the Audit Committee considered whether to recommend continuation of the contract with AuditOne to the FE Corporation for the following year. The Group Executive Director Finance added that assessing AuditOne’s performance over 2019-20 had assured her that Etc. had made the correct internal audit service appointment and that AuditOne had performed their audits thoroughly and fairly and reacted well to the challenge of COVID-19. Two Key Performance Indicators (KPIs) had not been fully met; the delay in the issuing of draft reports had been due to deadlines missed by both parties partly as a result of COVID-19 and the budget over-run on the Subcontracting audit had been fully covered by AuditOne.

In response to a question about the continued use of the Learning and Skills Council (LSC) questionnaire, the Group Executive Director Finance confirmed that no replacement was available. She agreed to review the Qualitative Performance Indicator Questionnaire to ensure it was current; the Chair noted that the questions were still relevant though perhaps not the reference to the LSC. A member asked if remote audits carried greater risk of fraud. The Group Executive Director Finance felt that, based on experience, there was no greater risk; AuditOne would always request particular sample data rather than Etc. staff choosing what to supply. On site work had been considered for the upcoming Safeguarding audit but both she and the Group Director of HR considered that AuditOne would have full remote access to the SCR, thus mitigating any risks.

Members **noted** the performance of the internal auditor in 2019-20 against the agreed indicators and **agreed** to recommend continuation of AuditOne’s contract for 2020-21 to the FE Corporation.

**A20/26    Agenda Item 11 – Any other business**

There were no items of additional business.

**A20/27    Agenda Item 12 – Approval of Documents for Public Inspection**

It was **agreed** that the agenda and approved minutes be made available for public inspection. Supporting documents were all deemed confidential for reasons of commerciality.

**A20/28    Agenda Item 13 – Dates and Times of future meetings**

Thursday 8 October 2020, 5.30 pm

Thursday 16 November 2020, 4.15 pm, followed by joint Audit and F+E meeting

Thursday 11 March 2021, 5.30 pm

Thursday 27 May 2021, 5.30 pm

**A20/29    Agenda Item 14 – Key Themes**

The following items were identified as ‘Key Themes’

- Presentation from RSM on the FE Statements of Recommended Practice (SORP)
- Received Payroll and Expenses, Risk Management, Subcontracting Controls and Distance Learning Internal Audit Final Reports
- Discussed arrangements for the Safeguarding Internal Audit
- Consideration of COVID-19 Risk Register 2020-21 and Re-opening Risk Assessment and Action Plan
- Considered the external audit strategy for the 2019-20 final accounts, including Emerging Issues
- Agreed to recommend to Corporation the continuation of the internal audit service contract with AuditOne for 2020-21

*The meeting ended at 7.15 pm.*

**Approved at a remote meeting**

**Date: 8 October 2020**