

Audit Committee Minutes

Meeting held on Thursday 8th October 2020 at 5.30 pm, via Zoom

- Governors:* Stuart Blackett, Subhash Chaudhary, Richard Poundford (Chair) and Norma Wilburn
- Apologies:* No apologies for absence from committee members
- In attendance:* Martin Gray (Independent Governor); Rosalind Armstrong and Wayne Brown (AuditOne); Claire Leece (RSM)
- Officials:* Phil Cook (Chief Executive Officer and Group Principal), Paul Flynn (Group Web & Compliance Manager, for item 4 only), Phil Hastie (Group Executive Director Planning and Infrastructure), 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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Audit Plan Summary

Members **noted** the update to the Audit Plan Summary 2020-21; the Group Executive Director Finance added that this would be updated for each meeting.

A20/30 **Agenda Item 1 – Appointment of Chair and Vice-Chair**

Members **agreed** to appoint Richard Poundford as Chair and Subhash Chaudhary as Vice-Chair of the Audit Committee for 2020-21.

A20/31 **Agenda Item 2 - Standing Invitation to auditors to speak with committee members**

The Chair confirmed that the auditors had not approached him since the last meeting and the internal and external auditors added that they had no issues to raise with committee members and would address agenda items as appropriate.

A20/32 **Agenda Item 3 – Notification of Items of Other Business**

There were no items of other business notified.

A20/33 **Agenda Item 4 – Cyber Security and GDPR**

The Group Executive Director Planning and Infrastructure explained that the Group Head of IT had been unavailable to attend but had provided information in the previously circulated report; he welcomed the Group Web & Compliance Manager, also the Group's Data Protection Officer, to the meeting. He confirmed the importance of considering cyber security arrangements given the increasing number of cyber-attacks targeted at the education sector. A National Cyber Security Centre (NCSC) Alert had been issued the previous month outlining the threats of ransomware attacks; he had also attended a webinar for technical staff held jointly by the NCSC and the Association of Colleges (AoC). The presentation outlined the top three methods of infection – Remote Desktop Protocol, vulnerable software and hardware,

and phishing emails – and the Group’s position on mitigating each of these risks. An e-learning module on cyber security from the NCSC would shortly be rolled out to staff and could be shared with governors.

The Group Web & Compliance Manager outlined the measures in place to protect the personal data of staff, students and external businesses and Etc.’s response to the NCSC Alert and recommendations. He also explained the role of the Information Commissioner’s Office (ICO), including the ICO’s response to a recent data breach; the ICO had considered that the Group had acted swiftly, that the breach was due to human error and that the appropriate systems infrastructure was in place. A data protection e-learning module was also in development to complement the cyber security training. The Group Executive Director Planning and Infrastructure highlighted the potential financial implications of a ransomware attack for the Group and added that, though systems were in place to prevent cyber attacks, human error was always a possibility and therefore the Group should not become complacent.

In response to a member’s question, the Group Executive Director Planning and Infrastructure confirmed that e-learning modules would provide more systematic staff training in a more informative and easily accessible format than currently delivered; he added that the Group Head of IT also circulated information in All Staff emails in response to specific identified issues. A member agreed that staff were the strongest link in preventing cyber crime and asked if Etc. performed any internal phishing tests. The Group Executive Director Planning and Infrastructure confirmed that penetration testing had been included in a previous internal audit and considered at this committee; phishing tests would be included in Cyber Essentials Plus certification. A member asked whether procedures for the storage and disposal of papers were secure when staff were working from home. The Group Web & Compliance Manager confirmed that data protection training covered both digital and printed data and, although there was always a risk of human error, staff were encouraged to be diligent and not to hide mistakes, so that lessons could be learned.

A member asked if cyber security training was mandatory and the Group Executive Director Planning and Infrastructure explained that this was the intention and that results from a short test at the end of the e-learning module would create a record of completion monitored by HR. Members noted that the cost of the recent ransomware attack on Redcar and Cleveland Borough Council could be as high as £10m.

Members **noted** the update and presentation.

Paul Flynn left the meeting

A20/34 Agenda Item 5 – Minutes of previous meeting

The minutes of the Audit Committee meeting held on 11 June 2020 were **agreed** as an accurate record.

The Clerk noted that all actions were completed or not yet due. The Group Executive Director Finance confirmed that online fraud training would be considered at the next Staff

Development Group and that the Group Web & Compliance Manager would be helping to develop an e-learning module. With respect to the action on enhanced pension payments, it was agreed that the Group Director of HR would incorporate a statement in the Pay and Pensions Policy to reflect that the Group did not offer enhanced pension payments. Progress against actions was **noted**.

A20/35 Agenda Item 6 – Internal Audit Reports 2019-20

The Group Executive Director Finance confirmed that the four internal audit reports included with the meeting papers had not been available for the June meeting but had been circulated to members by email between meetings.

Rosalind Armstrong from AuditOne outlined key points from the following internal audits:

Risk Based Audit of Learner Bursaries: There had been one low level recommendation concerning the retention of evidence of requests to change bank details. The report included a benchmarking exercise against other local colleges which concluded that Etc.'s offer compared favourably, with one additional area of possible financial support identified.

Compliance Audit of the Single Central Record (SCR): This had been carried out using contingency days and had taken place two days after migration from an Excel-based to an online SCR Tracker. No formal recommendations had been raised; three minor suggestions had been agreed.

Assurance Audit of Cyber Resilience: Infrastructure Operational Management: This audit focussed on Patch Management Controls and Active Directory Privileged User Management; three medium and one low level recommendation had been made. One recommendation, due at the end of October, was in progress; the others had now been completed.

Follow Up of Previous Recommendations: This audit was completed annually and provided members with assurance that internal audit recommendations reported to the Audit Committee as completed had been effectively implemented. All five recommendations reported as implemented and within the scope of the audit had been confirmed as fully implemented; four further completed recommendations would be validated as part of the 2020-21 Follow Up Audit as they were not in scope. The audit gave a substantial level of assurance.

Members commented on the positive outcomes of the learner bursaries' benchmarking and felt that it was a valuable exercise. In response to a member's question about upgrading the remaining Windows 2008 servers, the Group Executive Director Planning and Infrastructure confirmed that the Group aimed to replace these by the end of the month and then all Group servers would be on a virtual platform.

Members **noted** the final internal audit reports.

A20/36 Agenda Item 7 – Outstanding Actions Status Report

The Group Executive Director Finance highlighted that the status reports confirmed that eight agreed recommendations from internal audits had been completed, with one 'Not Yet Due' in progress; there were no outstanding actions from external audits. There were also no

outstanding internal or external audit recommendations for NETA and Tees Valley Catering. Any actions arising from the financial statements audit for the year ended 31 July 2020, currently underway, would be reported at the next meeting.

Members **noted** the status report.

Agenda Item 8 – Internal Audit Annual Report and Annual Report of the Audit Committee 2019-20

A20/37 8.1 – Internal Audit Annual Report

The Group Executive Director Finance confirmed that AuditOne's Assurance Opinion for 2019-20 provided substantial assurance. Wayne Brown, Head of Education, AuditOne, highlighted key sections from the 2019-20 Internal Audit Annual Report and Opinion. Section 2 outlined the basis of AuditOne's opinion and Section 3 confirmed that governance, risk management and control arrangements provided substantial assurance that the risks identified were managed effectively and that compliance with the control framework had been found to be taking place. He confirmed that sections 4, 5 and 6 had already been covered during this meeting and at previous Audit Committee meetings. Under section 7, Quality and Performance Assurance, he drew attention to the budget over-run on the Subcontracting audit due to the volume of testing, although this cost had not been passed onto the Group, and some delays in issuing draft reports due to staff sickness; timely issuing of draft reports would be a focus for 2020-21.

A member asked for clarification on the low completion rates of Post Audit Questionnaires. Wayne Brown reported that AuditOne had temporarily disabled the satisfaction questionnaire function during the COVID-19 pandemic and that, in future, the Audit Manager would inform the Group Executive Director Finance when questionnaires had been issued. He added that these would usually be sent to just the principal contact for each audit but could be circulated more widely. The Group Executive Director Finance confirmed that she had been unaware of the issue at the time and added that she suspected some staff had still not received questionnaires due to email quarantine; she emphasised that she would expect 100% completion of questionnaires from Etc. staff. It was agreed that the Group Executive Director Finance and the Head of Education, AuditOne, would formalise a process for ensuring distribution and completion.

Members **agreed** that the Annual Internal Audit Report should be included as an appendix to the Annual Report of the Audit Committee.

Martin Gray left the meeting.

A20/38 8.2 – Annual Report of the Audit Committee

The Chair reported how pleased he was with the achievements of the Audit Committee over 2019-20 and suggested that this work should be highlighted in the Ofsted Group paper on governors' involvement and impact. He thanked colleagues for their contribution and constructive challenge and reiterated the value brought by AuditOne in their first year as internal audit providers and by RSM's reappointment as external audit providers.

Members **approved** the Annual Report of the Audit Committee 2019-20, **authorised** the Committee Chair to sign and date the report and **agreed** that the report should be presented to the FE Corporation at its meeting on 22 October 2020.

A20/39 8.3 – Review of Committee’s performance against its terms of reference

The Clerk confirmed that there had been good attendance at meetings in 2019-20 and that the committee’s performance had been reviewed against its terms of reference; she highlighted that changes to the terms of reference for 2020-21 reflected the current Post-16 Audit Code of Practice. Members felt that, as committee members all made valuable contributions and brought a range of skills, no additional members were currently required.

Members **agreed** to recommend the proposed amendments to the terms of reference to the FE Corporation.

A20/40 Agenda Item 9 – Regularity Audit

The Group Executive Director Finance confirmed that the Group completed the regularity self-assessment questionnaire (RSAQ) each year and that it formed the basis of the regularity audit undertaken by RSM; once approved by Corporation, it would be signed by the Chief Executive as Accounting Officer and by the Chair of the FE Corporation. For 2019-20, the RSAQ included an Annex A with questions related to the Group’s response to COVID-19.

Members **noted** the regularity self-assessment questionnaire.

Agenda Item 10 – Risk Management

A20/41 10.1 - Risk Management Effectiveness 2019-20

The Group Executive Director Finance explained that the review of risk management effectiveness outlined the work of the Audit Committee over the year in monitoring risk management. In response to a suggestion from the internal audit review of Risk Management, she had added an overview of the movement of strategic risk over the year and asked members whether this summary was useful. The Chair felt that the committee were assured of the process and scope of risk management in the Group and that the summary was a useful indication of the movement of risk for this committee.

Members **agreed** that the risk management processes for 2019-20 were effective.

A20/42 10.2 – Risk Management Strategy 2020-21

The Group Executive Director Finance explained that the Risk Management Strategy had previously been presented directly to the FE Corporation for approval at their July meeting; in future years, she proposed that the strategy should be considered by the Audit Committee at their May meeting, for recommendation to the Corporation for approval in July. Minor amendments had been made including further analysis of the Group’s risk appetite in response to advice from the internal auditors; these changes had been reviewed and agreed by the Senior Management Team (SMT). The creation of specific risk registers in response to

key strategic projects or extraordinary situations had also been added.

Members **agreed** to recommend the Risk Management Strategy for 2020-21 to the FE Corporation.

A20/43 10.3 – Risk Management 2020-21

The Group Executive Director Finance had presented an updated Strategic Risk Register for 2020-21 with her previously circulated report; an additional column had been added to define the appropriate risk appetite as indicated in the Risk Management Strategy. Key updates to risks had been outlined in her report. Two new risks had been added including one requested by the Group Vice Principal Business, Innovation and Partnerships relating to the changes in Subcontracting rules and regulations. It was proposed that three risks (previous refs 26, 9 and 22) be retired from the register; details of risks discussed by the Risk Management Group (RMG), but not added to the register, had also been included in her report.

In response to a member's question, the Group Executive Director Planning and Infrastructure confirmed that a No Deal Action plan had been put in place and reviewed against AoC recommendations. A member asked what parameters had been used to assess the success of the launch of the Etc. brand, a risk proposed for retirement. Members agreed that, without a specific set of key performance indicators set pre-Etc. launch, it would be difficult to define success but it was felt that the new brand had not overshadowed the individual college brands. It was agreed to ask the Group Director of Marketing to update governors at the Strategic Conference on whether the purpose of the brand launch had been achieved.

Members **noted** the progress of risk monitoring for 2020-21 and **agreed** the retirement of the three risks from the Risk Register.

A20/44 10.4 – Risk Management COVID-19

The Group Executive Director Planning and Infrastructure confirmed that there had been no changes to the COVID-19 Risk Register since it had been circulated with the meeting papers; levels of cases in the area remained high. The Chair highlighted that governors received weekly COVID-19 updates from the Group Executive Director Planning and Infrastructure.

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

A20/45 Agenda Item 11 – Internal Audit Strategy 2020-21

The Group Executive Director Finance confirmed that the Chair of the Audit Committee and the Group Executive Directors had recently met with AuditOne to develop the Internal Audit Strategy for 2020-21. The Chair added that it had been a productive meeting with specific audit areas identified though these could be amended during the year should the Group's needs change; progress against the audit plan would be reviewed at each meeting. The Group Executive Director Planning and Infrastructure reported that, since the internal audit plan was circulated, he had discussed the Network Management and Cyber Security audits with AuditOne's Head Technology Risk Assurance and increased the days allocated from seven to eight to allow for more time to be spent on cyber security. The increase in days will be offset

with a reduction to contingency days available.

Members **agreed** to recommend the internal audit plan for 2020-21 to the FE Corporation.

A20/46 Agenda Item 12 – Post 16 Audit Code of Practice and Independent Review of College Financial Oversight (Ney Report)

The Clerk confirmed that the Post-16 Audit Code of Practice and an accompanying supplementary bulletin had been published in July 2020, much later than the usual Spring publication date. There was an increased focus on anti-fraud; the committee had already considered earlier checklists in June and November 2019 but the Group Executive Director Finance would undertake a review against the updated version. The Report of the Independent Review of College Financial Oversight, the Ney Report, had been published in July 2020 and a summary of the recommendations was included in her report. It was proposed that an invitation should be extended to all governors to the joint meeting of the Audit and Finance and Employment Committees.

A member highlighted that, although he was aware that a Whistleblowing Policy was in place, he was not sure of oversight arrangements. The Group Director of HR confirmed that she would lead on employment matters relating to whistleblowing and that there had been no incidents of note in the previous twelve months. The Group Executive Director Finance added that if the allegations involved fraud they would be covered by the Fraud Response Plan. It was agreed that the Whistleblowing Policy, including systems, process, levels of incident reporting and their resolution, would be discussed at the next meeting.

Members **noted** the Post-16 Audit Code of Practice and the Ney Report and **agreed** to invite all governors to attend the joint meeting of the Audit and Finance and Employment Committees in November 2020.

A20/47 Agenda Item 13 – Teachers’ Pension Audit – Letter of Engagement

Claire Leece, RSM, confirmed that the Letter of Engagement for the annual audit of the End of Year Teachers’ Pension Certificate had been due an update and that the terms and conditions were in line with the original tender document. Members **approved** the updated RSM Letter of Engagement.

A20/48 Agenda Item 14 – Fraud and Regularity Update

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

A20/49 Agenda Item 15 – Any other business

There were no items of additional business.

A20/50 Agenda Item 16 – 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.

A20/51 Agenda Item 17 – Dates and Times of future meetings

Thursday 26 November 2020, 4.15 pm, followed by joint Audit and Finance and Employment Committees meeting from 5.15 pm

A20/52 Agenda Item 18 – Key Themes

The following items were identified as ‘Key Themes’

- Presentation on Cyber Security and GDPR, including current practice at Etc. and implementation of additional IT security measures in response to the National Cyber Security Centre Alert and recommendations to the sector
- Received AuditOne’s reports on Risk Based Audit of Learner Bursaries, Compliance Audit of the Single Central Record, Assurance Audit of Cyber Resilience and Follow Up of Previous Recommendations
- Consideration of and recommendation to Corporation for approval:
 - Annual Report of the Audit Committee, including the Annual Internal Audit Report, 2019-20
 - Risk Management Strategy 2020-21
 - Strategic Internal Audit Plan for 2020 to 2023 and Annual Internal Audit Plan 2020-21
- Considered changes to the Post 16 Audit Code of Practice and recommendations from the Independent review of college financial oversight (Ney Report)

The meeting ended at 7.00 pm.

Approved at a remote meeting held on 26 November 2020