

Audit Committee Minutes

Meeting held on Thursday 27th May 2021 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:** Wayne Brown (Head of Education Services, AuditOne) and Ian Wallace (Managing Director, AuditOne); Claire Leece (Audit Partner, RSM)
- Officials:** Phil Cook (Chief Executive and Group Principal), 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)

The Chair welcomed everyone to the meeting.

A21/14 Audit Plan Summary

The Group Executive Director Finance highlighted that audits were progressing well; the network management audit could potentially take place in early 2021-22 but this was not of concern. Members **noted** progress as detailed on the Audit Plan Summary 2020-21.

A21/15 Agenda Item 1 - Standing Invitation to auditors to speak with committee members

The Chair confirmed that the auditors had not raised any concerns with 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.

A21/16 Agenda Item 2 – Minutes of previous meeting

The minutes of the meeting held on 11 March 2021 were **agreed** as an accurate record.

The Group Executive Director Finance confirmed that she would be discussing the scope for a presentation on embedding a risk culture with the auditors for a future meeting. The member who had suggested this as a focus item commented that it would be interesting to look at maturity of systems and processes concerned with risk and how these could mature at Etc. in the longer-term. The Group Executive Director Finance confirmed that online fraud and irregularity training was in development, due for completion early 2021-22. All other actions had been completed or were on the agenda for this meeting; progress against actions was **noted**.

A21/17 Agenda Item 3 – Notification of Items of Other Business

Norma Wilburn asked to raise an item of other business at the end of the meeting and this was agreed.

A21/18 Agenda Item 4 – Outstanding Actions Status Report

The Group Executive Director Finance confirmed that there were no outstanding actions; progress against actions from the internal audits presented at this meeting would be reported at the next meeting.

Members **noted** the status report.

A21/19 Agenda Item 5 - Internal Audit Reports

Wayne Brown, Head of Education Services (AuditOne), presented the following internal audit reports.

5.1 – Procurement

The final audit report had been issued and circulated to members; the Head of Education Services confirmed that this audit had provided substantial assurance, with no formal recommendations raised. The Group was supported by the procurement specialists, Tenet, who provided advice and guidance regarding compliance and in particular with larger value purchases. The audit tested compliance on procurement activity during 2020-21, with all orders tested found to be compliant; the report detailed a suggestion for improvement to Finance Office procedures and the inclusion of detail regarding sole suppliers and also the inclusion of review date and author. The Group Executive Director Finance confirmed that the suggestion had been accepted and would be put in place.

5.2 – Eligibility Testing

The final audit report had been issued and circulated to members; the Head of Education Services confirmed that this audit had also provided substantial assurance and that no formal recommendations had been raised. The audit review aimed to provide an independent assurance opinion that the Group had effective arrangements in place with regards to the Education and Skills Funding Agency (ESFA) funding requirements in relation to eligibility. Compliance had been tested on a sample of 16-18, adult and apprenticeship learners. Three low priority findings had been made and all accepted; two related to enrolment and would be put in place for 2021-22 enrolments. The third related to an update to the Apprenticeship Audit checklist and had been implemented.

5.3 – Use of Funds

The Group Executive Director Finance confirmed that there had been no areas for concern and that this advisory audit had been useful; the draft report was in the process of being finalised. No assurance opinion would be provided as this had been an advisory review but three medium priority suggestions had been accepted and were in progress. The final report would be circulated to members once available and reported at the next meeting.

5.4 – Cyber Incident Response Planning

The Head of Education Services confirmed that this audit had been planned in two stages. The cyber incident response planning review was in progress and would be reported at the next meeting; the follow up to the previous review of Cyber Security in August 2020 provided an

independent evaluation in respect of recommendations arising from this audit and the final report had been circulated to members. This confirmed that, as reported in status updates to the Audit Committee, all recommendations had been completed. The Chair confirmed that it was pleasing to gain assurance on cyber security from AuditOne's work.

Phil Cook joined the meeting.

A member asked if the number of attempts on passwords allowed before being locked out was standard. The Head of Education Services confirmed that, as the default password length was 12 characters with complex rules, this provided a sufficient level of security. The Group Executive Director Planning and Infrastructure added that the password settings complied with the National Cyber Security Centre (NCSC) guidance. Members compared password settings in their own workplaces which all included fewer characters but allowed fewer password attempts.

5.5 - Subcontracting

In line with ESFA requirements, an audit had taken place in May 2021 to review subcontracting controls and obtain a Certificate of external assurance of the systems and controls in place to manage subcontractors. The final audit report would be circulated to members once available.

The Chair added that he had requested that the report on the recent ESFA Subcontracting consultation, already presented to Corporation, be reviewed by this committee, specifically in respect of risk in this area. The Group Executive Director Planning and Infrastructure confirmed that the appropriate controls were in place and that subcontracting was audited annually as part of the internal audit cycle. He added that an action plan had been put in place and a request had been submitted to the ESFA with regard to Prince's Trust provision and whole programme subcontracting.

A member commented on the comprehensiveness of the report but noted that it did not include any information on the number of subcontractors and the value of contracts. The Group Executive Director Planning and Infrastructure confirmed that the values and strategic rationale for subcontracting were reported through the Finance and Employment Committee. He agreed to send the relevant report as presented at the last Finance and Employment Committee meeting to the member.

Members **noted** final reports for the Procurement, Eligibility Testing and Cyber Security Follow Up internal audits and the ESFA consultation and guidance on subcontracted provision.

A21/20 Agenda Item 6 – ESFA Funding Audit (Learner Support Funds)

The Group Executive Director Planning and Infrastructure confirmed that, though the Group expected a full funding audit in the autumn, the ESFA had selected Etc., along with other providers in the North East, for an in-year funding audit in the use of 16-18 bursary funding and free school meals during the 2019-20 academic year. This had commenced in May 2021 and the process was still ongoing; correspondence from the ESFA had been expected the previous day but had not yet been received. A potential issue relating to evidence to support the

payment of monies direct to Redcar and Cleveland College learners' bank accounts in 2019-20 had been identified and was being resolved; this system was no longer in place.

Members **noted** the update on the ESFA Funding Audit of Learner Support Funds.

Ian Wallace left the meeting.

Agenda Item 7 – Risk Management

A21/21 7.1 – Etc. Strategic Risk Register 2020-21

Key updates to the Strategic Risk Register had been highlighted in the previously circulated report and the Group Executive Director Finance outlined the inclusion of a new risk relating to the delivery of T Levels as a new curriculum area at Level 3. Controls had been put in place and the Implementation Plan had been highly commended by the ESFA. Risk movements had also been highlighted and it was proposed to remove the risk relating to Brexit (previous ref 11) due to the lack of any negative impact now or expected in the near future. The report also outlined risks discussed at Senior Management Team (SMT) meetings but not added to the Strategic Risk Register, including capital applications, the implications of the Queen's Speech for further education and potential disruption as a result of changes to learning loans.

A member commented on the growing number of retired risks and whether these could be recorded elsewhere and another member commented that, in his organisation, retired risks were moved to a retired risks folder after 12 months. Members **agreed** that the Group Executive Director Finance should establish a suitable timeframe for removing retired risks from the Strategic Risk Register and transfer these to a separate retired risks folder.

Members **agreed** to retire the risk relating to Brexit (previous ref 11) and **noted** the progress of risk monitoring for 2020-21 for the Education Training Collective.

A21/22 7.2 – COVID-19 Strategic Risk Register 2020-21

The Group Executive Director Planning and Infrastructure referred members to his previously circulated report which summarised key changes to the COVID-19 Risk Assessment and Action Plan and Risk Register since the committee's last meeting. He added that it was proposed that the COVID-19 Strategic Risk Register should be retired and any relevant strategic risks incorporated into the Etc. Strategic Risk Register. The action plan and Risk Assessment would be retained for operational health and safety purposes. Members agreed that the COVID-19 risk register had been useful for managing risk and keeping this committee informed and assured but that it was no longer necessary. The Group Executive Director Planning and Infrastructure added that he had had a telephone conversation with the Health and Safety Executive (HSE) as part of their programme of spot checks on educational establishments; the HSE had checked whether controls and a risk assessment were in place and that the Group was compliant with HSE recommendations.

Members **noted** the update and COVID-19 Risk Register and **agreed** that remaining risks should be incorporated into the Etc. Strategic Risk Register.

A21/23 7.3 – Risk Management Strategy 2021-22

The Group Executive Director Finance confirmed the minor changes to the Strategy, including updated Strategic Goals for 2021-22 and the addition of a new risk category and corresponding risk appetite relating to Curriculum as agreed by the Risk Management Group (RMG). The Strategy would be presented to the FE Corporation in July for approval for the following year.

Members **agreed** to recommend approval of the Risk Management Strategy 2021-22 to the FE Corporation.

A21/24 Agenda Item 8 – Strategic Fraud Risk Update

The Group Executive Director Finance confirmed that she had reviewed RSM's fraud risk checklist to assess the risk of fraud at Etc. with action taken by the Group in the previously circulated report; she thanked the Clerk for her help in reviewing this and the Post 16 Audit Code of Practice anti-fraud checklist for post-16 providers. She highlighted that the requirement for a specific fraud risk assessment process had been reviewed initially and no action felt necessary. Members **agreed** that the Group Executive Director Finance revisit the ESFA fraud assessment template and report to the next Audit Committee meeting.

Members **noted** the update.

A21/25 Agenda Item 9 – External Audit Strategy for 2020-21 Final Accounts

The Group Executive Director Finance invited Claire Leece, Audit Partner for RSM, to present the External Audit Strategy for the 2020-21 final accounts. The Audit Partner highlighted that RSM's external audit plan had been included in the papers for the meeting; timings had been included to meet sign off of financial statements and letters of representation by 31 December 2021. RSM proposed a similar approach to previous years, including similar risks, though she highlighted that income recognition would include government support funding in response to COVID-19. As a result of the recently-announced changes to the Post-16 Audit Code of Practice (ACOP), where the ESFA and Tees Valley Combined Authority (TVCA) would no longer provide assurance to the auditor over the funds earned by the Group, RSM were still developing their response and reviewing its impact on this year's audit. The liability that would be required to be recognised under FRS 102 in respect of the Group's share of the Local Government Pension Scheme deficit, including the underlying actuarial assumptions, had not yet been notified. She confirmed that the going concern review would be as for the 2019-20 accounts, including review of any actual or forecast breaches of bank covenants. In terms of the Transactions Unit (TU) grant, RSM would review any reasoning behind the element of grant recognised as income in the year and check it was in line with the terms of the grant offer letter. The Audit Partner confirmed the assumptions on which the audit fee had been based and that the fee was as agreed at tender.

The Audit Partner RSM outlined the implications of the change in the ACOP 2020-21 regarding assurance on income earned by colleges; the ESFA and TVCA would confirm the income that a college had been given but that was not necessarily the same as the income earned. RSM were currently considering what work would be required for reconciliation of funds earned as generated through Individual Learner Record (ILR) returns, including the use of RSM's funding

body income team specialists. RSM would work with the Group's management team over the summer.

The Group Executive Director Planning and Infrastructure asked if the anticipated ESFA funding audit would provide the necessary assurance and the Audit Partner felt that a funding audit by RSM would still be required particularly given the ESFA funding audit was not guaranteed to take place and, if it did, feedback might not be received to meet the deadlines for account's sign off. She added that RSM had already flagged probable staffing capacity issues with the ESFA. In response to a member's question about why income received would not necessarily equal income earned, the Audit Partner RSM explained that colleges were paid on profile but that may not be what was actually delivered as reflected in ILR returns. Members noted the additional audit work that would need to be carried out this year in terms of funding body income assurance.

Members **agreed** to recommend the External Audit Strategy for the 2020-21 final accounts to the FE Corporation.

A21/26 Agenda Item 10 – Post-16 Audit Code of Practice

The Clerk had outlined changes to the Post-16 ACOP and proposed actions in her previously circulated report.

Members:

- i) **agreed** to review the ESFA good practice guide for audit committees in further detail at a future meeting;
- ii) **agreed** to formally review the skills and experience of, and the training and development undertaken and required by, Audit Committee members as part of the annual review of committee membership and performance in the autumn term and **noted** that comments and suggestions in relation to membership or training should be provided to the Clerk to allow early planning;
- iii) **recommended** that the wording in the Group Financial Regulations should be strengthened to reflect the requirement for re-tendering of external auditors every five years when the Financial Regulations were reviewed in the autumn term;
- iv) **recommended** to the Corporation that the external auditors present the annual accounts to the December Corporation meeting;
- v) **noted** the update from the external auditors in relation to arrangements for assurance over ESFA funding for income recognition under Agenda Item 9.

A21/27 Agenda Item 11 – Whistleblowing Policy

The Group Director of HR reminded members that they had last reviewed the Whistleblowing Policy at their meeting in November 2020; following annual review, minor amendments had been made, for example, references to College updated to the Group and updated contact details for Protect, formerly known as Public Concern at Work. An additional sentence had been added to address the process should a disclosure relate to the Chair of Governors, mirroring the Complaints Policy.

Members **agreed** to recommend approval of the amendments to the Whistleblowing Policy and Procedure to the FE Corporation.

A21/28 Agenda Item 12 – Fraud and Regularity Update

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

A21/29 Agenda Item 14 – Approval of Documents for Public Inspection

It was **agreed** that the agenda and approved minutes would be made available for public inspection. With the exception of the Risk Management Strategy 2021-22 and the Whistleblowing Policy and Procedure, which would be published following approval by the FE Corporation, supporting documents were all deemed confidential for reasons of commerciality.

A21/30 Agenda Item 15 – Date and times and venue / format of future meetings

The following proposed dates were **agreed**:

Thursday 30 September 2021, 5.30 pm

Thursday 25 November 2021, 4.15 pm, followed by joint Audit and Finance and Employment meeting

Thursday 24 March 2022, 5.30 pm

Thursday 19 May 2022, 5.30 pm

Members **agreed** to hold these meetings in person with the option for members to join via Teams at both the SRC and RCC Boardrooms; the auditors confirmed that they were awaiting direction from their organisations on in person attendance at meetings.

The Chair confirmed that this would be his last Audit Committee meeting; he thanked the internal and external audit providers for their support to him as Chair of the Audit Committee.

Wayne Brown and Claire Leece left the meeting.

A21/31 Agenda Item 17 – Internal Auditor Appointment 2021-22

The Group Executive Director Finance confirmed that she had undertaken an evaluation of the service provided by AuditOne; of particular note, AuditOne had continued to provide added value following the successful switch to remote audits. There had been some slight delays in issuing of reports but this had been due to issues at both AuditOne and Etc., including staff absence. She therefore recommended continuation of AuditOne's contract for a further year. Members commented on the quality of the work of both audit providers.

Members **agreed** to recommend re-appointment of AuditOne as internal audit providers for 2021-22 to the FE Corporation. The Group Executive Director Finance **agreed** to inform AuditOne of the Committee's decision.

A21/32 Agenda Item 13 – Any other business

Norma Wilburn reflected on Richard Poundford's successful chairship of the Audit Committee and thanked him on behalf of committee members and officers for his work. In response, Richard Poundford commented on how much he had enjoyed the work of the Audit Committee and thanked committee members for their individual and differing perspectives on risk and senior postholders for their support during his time as committee chair.

A21/33 Agenda Item 16 – Key Themes

The following items were identified as 'Key Themes'

- Outstanding actions status reported with all audit recommendations completed;
- Procurement, Eligibility Testing and Cyber Security Follow Up final audit reports considered (all with an assurance opinion of Substantial); verbal updates on Use of Funds (advisory audit only) and Subcontracting audits;
- Recommended the following to the FE Corporation for approval:
 - Risk Management Strategy 2021-22
 - External Audit Strategy for 2020-21 final accounts
 - Whistleblowing Policy and Procedure
 - Continuation of AuditOne's contract for 2021-22
 - RSM presentation of annual accounts at December Corporation meeting;
- Review of Etc. Strategic Risk Register and COVID-19 Risk Register, with agreement to incorporate the COVID-19 Risk Register fully within the Etc. Strategic Risk Register;
- Considered and agreed actions in response to updates to the Post 16 Audit Code of Practice, including arrangements for external audit assurance over ESFA funding for income recognition;
- Confirmed no fraud or regularity concerns.

The meeting ended at 6.40 pm.

Approved at a meeting held on 30 September 2021