

Audit Committee Minutes

Meeting held on Thursday 30th September 2021 at 5.30 pm, SRC 301

Governors: Rachel Beeken, Stuart Blackett (Chair), Subhash Chaudhary and Mark Wilson

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), Gary Potts (Group Vice Principal Business, Innovation and Partnerships), Fiona Sharp (Group Executive Director Finance), Sarah Thompson (Clerk) and Sam Young (Governance Support Officer)

Mark Wilson, Wayne Brown, Ian Wallace, Phil Cook and Phil Hastie attended the meeting remotely via Teams.

A21/34 Agenda Item 1 - Standing Invitation to auditors to speak with committee members

Stuart Blackett explained the importance of reintroducing a closed session at the start of each Audit Committee meeting and invited the internal and external auditors to raise any issues before the executive joined the meeting; representatives from RSM and Audit One confirmed that they had no issues to raise with committee members and would address agenda items as appropriate.

Phil Hastie, Gary Potts and Fiona Sharp joined the meeting.

A21/35 Agenda Item 2 – Appointment of Chair and Vice Chair

Members **agreed** to appoint Stuart Blackett as Chair and Subhash Chaudhary as Vice Chair for the Autumn term 2021-22; this would be reviewed at the March Audit Committee meeting.

A21/36 Agenda Item 3 - Notification of Items of Other Business

There were no notifications of items of other business.

Members **agreed** to bring forward Agenda Item 8, the Cyber Incident Response Final Report (under Agenda Item 9) and Agenda Item 15.

Phil Cook joined the meeting.

A21/37 Agenda Item 8 – Education and Skills Funding Agency (ESFA) Audit of Learner Support Fund

The Group Executive Director Planning and Infrastructure gave a verbal update on the ESFA audit of the use of 16-18 bursary funding and free school meals during the 2019-20 academic year; the Group had raised some errors in the initial feedback with the ESFA and, as yet, had

not received a final report. He confirmed that an issue identified at Redcar and Cleveland College (RCC) in 2019-20 would require some reconciliation but not at the level originally anticipated. Members would be kept informed and an update brought to the next meeting.

Members **noted** the update.

A21/38 Agenda Item 9 – Internal Audit Reports 2020-21 – Cyber Incident Response Final Report

The final audit report had been circulated in advance of the meeting. The Head of Education Services Audit One explained that, in recognition of the increased risks of cyber incidents in the education sector, this audit had reviewed the design of the control framework and incident response plan. There had been three medium-rated recommendations, all accepted by the Group, which related to failover of the virtual environment and the content and testing of the cyber incident response plan. The Group Executive Director Planning and Infrastructure confirmed that failover testing had been reinstated and that a successful finance test had taken place in mid-September; testing had been temporarily suspended during the pandemic as on-site staffing levels had not been high enough to ensure there would be no disruption to normal services. Changes had been made to the Cyber Incident Response Plan including prompt contact with the Group's insurers.

A member asked about completion dates for the recommendations and the Group Executive Director Planning and Infrastructure explained that the target implementation dates had been listed on pages 10 and 11 of the audit report; the action due at the end of August had been completed and cyber incident response plan revisions would be made by the end of October. In response to a member's question about the frequency of periodic testing, the Group Executive Director Planning and Infrastructure explained that a schedule had not yet been agreed with Audit One but would be put in place by the end of December and then reviewed annually; he also agreed to discuss best practice on frequency with the Head of IT at Audit One and confirmed that IT Disaster Recovery was included in the 2021-22 internal audit plan.

A member asked whether, given the increased risk of cyber attack, testing should be increased. The Group Executive Director Planning and Infrastructure explained that processes such as penetration testing and Cyber Essentials accreditation were in place and that this internal audit specifically related to cyber incident response planning.

A member asked whether the disaster recovery site would be just for IT or all Group staff and the Group Executive Director Planning and Infrastructure confirmed that it would be available for all staff but that there would not be enough space for all staff from one site to work out of other Group sites; however, the IT infrastructure was in place.

Members **noted** the Cyber Incident Response Planning final audit report.

A21/39 Agenda Item 15 – Department for Education (DfE) Funding and Accountability Consultation

The Group Executive Director Planning and Infrastructure had circulated a report on the DfE Funding and Accountability Consultation, including considerations from an Audit Committee perspective such as the potential for changes to audit systems to reflect proposed new

Accountability Agreements. Comments from the Association of Colleges' (AoC) draft response to the consultation on the assurance and accountability requirements on colleges had also been outlined. He highlighted that, as the consultation had not yet concluded, no action was required by committee members at this time.

Members **noted** the consultation.

A21/40 Agenda Item 4 – Audit Summary

The Group Executive Director Finance confirmed that the Audit Plan Summary had been updated with audit activity for 2020-21, with one audit, Network management – wireless network infrastructure, in progress. The year end audit by RSM was also currently in progress and a new Audit Plan Summary would be put together once the 2021-22 audit plan had been approved and the timetable finalised.

Members **noted** the audit plan summary.

A21/41 Agenda Item 5 – Minutes of previous meeting

The minutes of the meeting held on 27 May 2021 were **agreed** as an accurate record.

All actions had been completed, were on the agenda for this meeting or were not yet due; progress against actions was **noted**.

A21/42 Agenda Item 6 – What is External Audit?

Claire Leece, Audit Partner RSM, gave a presentation on the independent auditor's report to the Corporation, highlighting what RSM was responsible for and what it did not do.

The Opinion statement confirmed that RSM audit the financial statements and not the written statements made by the Corporation and ensure that they give a 'true and fair view of the state of the Group's and of the College's affairs'. The auditors would not check the accounts to the penny but would talk instead about risk areas and confirm whether any material uncertainties had been identified. In response to a member's concern about the use of the term 'Generally Accepted', the Audit Partner RSM confirmed that the United Kingdom Generally Accepted Accounting Practice was the standard accounting practice in the UK.

The conclusions relating to going concern assumed that the Group had the ability to remain in the sector for the next twelve months; RSM reviewed governors' assessment of this and confirmed whether or not any material uncertainties had been identified during the audit process. Although RSM's opinion on the financial statements would not cover the other information in the annual report, they would consider whether the other information was materially inconsistent with the financial statements; for example, a statement that student numbers had doubled when they had not. She added that governors were responsible for reviewing the other information and challenging management if appropriate.

The implication of delays in receiving ESFA and the Tees Valley Combined Authority (TVCA) funding reconciliations was discussed and the Audit Partner RSM confirmed that, for the 2019-

20 accounts, TVCA had only provided written confirmation on 28 January 2021 for a 31 January 2021 submission. The Group Executive Director Planning and Infrastructure added that TVCA had not yet provided written confirmation of their response should the Group deliver Adult Education Budget (AEB) below contract levels but the Group was in regular communication with TVCA on this.

The Audit Partner RSM confirmed that RSM had never had to report anything about the Group under matters they would be required to report by exception, which was very rare.

The Corporation was responsible for the preparation of financial statements, which would be compiled by the Group Executive Director Finance and other Etc. staff. The Corporation would need to be satisfied that they gave a true and fair view and that the necessary internal controls were in place; she noted that the work undertaken by AuditOne provided a control framework.

The auditor's objective was to obtain reasonable assurance about whether the financial statements were free from material misstatement and RSM were responsible for determining the level of materiality and undertaking appropriate work to form their opinion. There were no guarantees that an audit would always detect any material misstatement but RSM carried out sample testing on both large and small transactions to gain reasonable assurance.

During the audit, evidence regarding compliance with appropriate laws and regulations would be obtained and, for example, Board and committee minutes would be reviewed for appropriate responses to compliance issues. The risk of material misstatement of the financial statements due to fraud was also considered in RSM's audit approach, though the prevention and detection of fraud was the primary responsibility of management, with the oversight of governors.

A member asked if the audit included an assessment of financial controls, for example segregation of duties, and the Audit Partner RSM explained that, as part of the audit of subsidiary companies, journal entries had been reviewed for any trends and anomalies.

In conclusion, the Audit Partner RSM confirmed that all the statements highlighted in her presentation would be included in the accounts presented to the Corporation for signature. In response to a member's question, she confirmed that the financial year ended on 31 July with annual accounts submitted to ESFA by 31 December; she would present the accounts to the joint meeting of the Audit and Finance and Employment Committees in November and, in accordance with the changed requirements of the Post 16 Audit Code of Practice (ACOP), would also present them to the FE Corporation meeting in December.

The Chief Executive commented that, at the Search and Governance Committee meeting held earlier that afternoon, recruitment for another governor with financial experience had been discussed to ensure effective oversight of finances and the annual accounts.

A member asked about communication between the internal and external auditors and the Audit Partner RSM confirmed that, by attending Audit Committee meetings, the external audit provider was able to hear directly from the internal auditor. Additionally, during the external

audit of the accounts, she would discuss any fraud concerns with the Head of Education Services AuditOne and triangulate that with information obtained from Audit Committee meetings. If RSM had any fraud concerns, the level of sample testing would be increased.

Phil Hastie left the meeting.

In response to a member's question, the Audit Partner RSM confirmed that both NETA Training Trust and Tees Valley Catering (TVC) accounts were audited separately, considered by their respective boards, and then consolidated into the Group accounts for the FE Corporation Board.

Members thanked Claire Leece for her informative presentation.

A21/43 Agenda Item 7 – Outstanding Actions Status Report

The Group Executive Director Finance confirmed that all internal and external audit actions had been completed and that there were currently no outstanding actions; progress against actions from the internal audits presented at this meeting and the external audit for the year ended 31 July 2021 would be reported at the next meeting.

Members **noted** the status report.

A21/44 Agenda Item 9 – Internal Audit Reports 2020-21

The Head of Education Services AuditOne presented the following final audit reports:

Use of Funds

This had been an advisory review requested to provide assurance that the Group had applied new ESFA funds received in 2020-21, the Further Education Capital Allocation (FECA) and the 16-19 Tuition Fund, in accordance with associated criteria; there was, therefore, no assurance opinion provided, though the review had been felt to be helpful and had confirmed that funds had been applied appropriately. Three suggestions had been made in relation to the Tuition Fund with an action plan agreed and implemented. It was noted that the use of unexplained acronyms should be avoided in future reports.

Cyber Incident Response Planning

See minute A21/38.

Subcontracting

This annual audit, a requirement of both the ESFA and TVCA if the aggregate value of subcontracting was greater than £100,000, provided external assurance of subcontracting controls. The audit had taken place remotely in May 2021 and had involved sample testing of the Group's ten subcontractors across a range of provision, 16-18, 19+ and apprenticeships; the Assurance Opinion was Substantial and certificates had been provided to the ESFA and TVCA. The Chief Executive added that the ESFA considered subcontracting a high risk area.

Follow Up

This annual follow up audit gave assurance that previously agreed recommendations reported to the Audit Committee had been implemented. There had been eight recommendations since the previous formal follow up audit that fell within the scope of this review and these had all been implemented. A member highlighted that it was reassuring to hear that all recommendations had been closed off by management as this would not be the case in all organisations and he thanked senior post holders for this. The Head of Education Services AuditOne agreed that good processes were in place at Etc. with strong lines of accountability.

A member asked if it would be possible to introduce a Key Performance Indicator (KPI) on the closure of audit recommendations to be reported either quarterly or annually; the Group Executive Director Finance confirmed that regular updates on audit actions were reported through this committee but that she could consider an appropriate metric. The Managing Director AuditOne added that their benchmarking and the analysis undertaken by the Group Executive Director Finance demonstrated the strength of the Group's systems and processes, with good compliance levels and delivery of recommendations. He assured the committee of the high level of Etc.'s performance both in the Further Education (FE) sector and against other sectors and the importance of recognising this.

Members thanked AuditOne and **noted** the internal audit final reports.

A21/45 Agenda Item 10 – Internal Audit Strategy 2021-22

The Group Executive Director Finance explained that she, the Group Executive Director Planning and Infrastructure and the Chair of the Audit Committee had met with AuditOne to develop the internal audit strategy for 2021-22. The Head of Education Services AuditOne explained that the year two plan had been reviewed against relevant risks and the Group's Strategic Risk Register to develop the internal audit programme for the coming year, including four contingency days. A meeting would be held with the Group Executive Director Finance the following day to confirm the timetable for delivery but it was intended to carry out the Safeguarding audit first to give the Group assurance as part of Ofsted inspection preparations.

Members discussed the frequency of cyber security audits and the Head of Education Services AuditOne explained that a number of internal audits around cyber security had taken place over the last two years and that implementation of the three recommendations from the Cyber Incident Response Plan audit would also provide assurance. He added that the Group had internal processes and testing in place in addition to formal internal audits and the Group Executive Director Finance highlighted that cyber security controls would be included in the IT disaster recovery audit in the internal audit plan for 2021-22. It was agreed that the Clerk and Group Executive Director Planning and Infrastructure would provide members with details of cyber security coverage and reports to the committee.

A member commented on the comprehensiveness of the Group's Strategic Risk Register and the need for the internal audit plan to pick up key priorities during the year and adapt the plan accordingly. The Clerk confirmed that audit plans were reviewed during the year, with proposed changes considered by the Audit Committee.

Members **agreed** to recommend the internal audit plan for 2021-22 to the FE Corporation.

A21/46 Agenda Item 11 – Regularity Audit

The Group Executive Director Finance explained that as part of RSM’s regularity audit work the Group completed the Regularity Self Assessment Questionnaire (RSAQ) which, for the second year, included an additional Annex to aid Corporations in their assessment of regularity relating to COVID-19 issues; these drafts had been circulated with the meeting papers. The RSAQ supported the Corporation in drafting their statement of regularity, propriety and compliance and, following Audit Committee consideration, would be presented to the FE Corporation for approval and signature by the Chief Executive and Group Principal as Accounting Officer and the Chair of the Corporation.

Referring to page 6 of the draft RSAQ, the Audit Partner RSM clarified that RSM did not audit all settlements of employment claims but instead would test a sample. The Group Executive Director Finance agreed to reword this section to reflect that all termination payments would be declared to RSM but not all settlements were audited.

Subject to this amendment, members **noted** the Regularity Self-Assessment Questionnaire and **recommended** for signature by the Corporation Chair and Accounting Officer.

A21/47 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.

Agenda Item 13 – Risk Management

A21/48 13.1 – Risk Management Effectiveness 2020-21

The Group Executive Director Finance explained that, following advice from AuditOne the previous year, the report provided a summary of risk movement over 2020-21. Members discussed the significance of the movement of risks table and requested that next year’s report consider the implications and impact of this in terms of risk management effectiveness.

Members **agreed** that risk management processes for 2020-21 had been effective.

A21/49 13.2 – Risk Management 2021-22

The Group Executive Director Finance explained that the Risk Management Group met regularly to review the Strategic Risk Register and that the register had been reviewed and refreshed during September 2021. The new master version, circulated with the meeting papers, would be updated through the year with new risks added in bold and amendments to existing risks highlighted in bold or strikethrough. Key updates and two new risks had been detailed in the covering report; the College Principal Bede had added a risk in relation to sexual violence and harassment; and the Group Director of HR one relating to the potential inability to attract and retain staff. It was proposed to retire the risk relating to the difference in culture following the merger with Redcar and Cleveland College (RCC) as the Etc. culture had been embedded across the Group. As agreed at the last Audit Committee meeting, the Risk Management Group had

reviewed risks included in COVID-19 specific risk register, which had now been discontinued and appropriate risks included in the Group Strategic Risk Register.

A member asked whether the change of Secretary of State for Education or logistics and supply issues had been considered. The Group Executive Director Finance confirmed that these issues had both been discussed by the Risk Management Group but had been deemed not appropriate to include in the register at this time. The Chair also stressed that it was important for governors to challenge the risk register and encouraged members to raise any questions with the Group Executive Director Finance and other senior managers.

A member asked whether staff turnover data supported the new risk relating to staff recruitment and retention and the Chief Executive explained that retention was reported through the Finance and Employment Committee but that staff turnover was not perceived to be an issue, as also evidenced in the positive results of the staff survey. However, in particular curriculum areas, such as joinery and electricians, recruitment of suitably qualified and experienced staff could be an issue; measures had been put in place and the Group Director of HR was already working on strategies with the relevant heads of department. In particular, the risk reflected that some staff would earn less in teaching than in working in their particular trade and that the demands of teaching and technology could be challenging for some.

A member commented on the fact that learners had been internally assessed for the last two years rather than taking external examinations and asked whether the risks of a return to external assessment, including the risks to learners' mental health, had been considered for inclusion in the risk register. The Chief Executive agreed that this would be worth monitoring as teacher assessed grades had been about 11% higher than examination grades and had therefore allowed more students to enrol on, for example, A Level programmes at Bede. The Group Executive Director Finance agreed to discuss this with college principals.

There was also a discussion about the potential risks to the Group from staff being able to access the higher levels of pay associated with jobs in the south without the need to relocate, and the opening of Treasury offices in Darlington and the converse benefits to staff of maintaining flexibility and hybrid work. It was noted that working flexibly was part of the Great Place to Work Strategy.

Members **noted** the progress of risk monitoring and **agreed** the proposed retirement of the risk relating to differences in culture on merger with Redcar and Cleveland College.

Agenda Item 14 – Audit Committee Effectiveness

A21/50 14.1 – Audit Committee Good Practice Guide

The Clerk had reviewed the requirements of the most recent version of the ESFA publication *The scope of work of audit committees and internal auditors in college corporations* and outlined considerations for the committee. She confirmed that the model report format would be considered when preparing the Annual Report of the Audit Committee audit which would be brought to the November meeting and that, to enable the committee to form a holistic view,

the internal auditor's annual report would be considered at the same time as the external auditor's report, again at the November meeting.

The Audit Partner RSM asked whether the Search and Governance Committee had considered appointing a member with specialist audit experience to the committee and the Chief Executive, also a member of the Search and Governance Committee, commented on the success of the recent recruitment exercise to the Board and that financial and property/estates background would be a priority in the next recruitment cycle. This would be especially important given that Stuart Blackett, with both audit and financial expertise, would not be able to remain a member of Audit Committee on his appointment as Corporation Chair.

Members **noted** the best practice guidance suggestions.

A21/51 14.2 – Committee performance and terms of reference

The Clerk had circulated a report reviewing the work of the Audit Committee in 2020-21 against its terms of reference and confirming that the membership of the committee had been refreshed for the start of the 2021-22 academic year, with a balance of experienced members and new members with a fresh perspective. She also noted the requirements of the Post-16 ACOP for Audit Committee members to consider their training and development requirements and confirmed that the Group subscribed to the Education and Training Foundation's Governance Development Programme which included specific audit modules. Some minor amendments to the terms of reference were proposed to reflect changes to wording in the Post 16 Audit Code of Practice.

A member asked how the requirement to consider the development of members fitted with the training needs analysis as part of the annual returns and the Clerk confirmed that this referred to the specific training needs of Audit Committee members, adding that, in addition to formal training, the committee would continue to benefit from specific presentations as part of the meeting cycle. The Chair highlighted that attendance at meetings the previous year had been 100% and that the committee should continue to take advantage of remote access to maintain high attendance levels.

Members **noted** governor recruitment needs with a view to strengthening the committee and the committee's performance against its terms of reference and **agreed** to recommend the proposed amendments to the terms of reference to the FE Corporation.

A21/52 Agenda Item 16 – Any other business

There were no items of additional business.

A21/53 Agenda Item 17 – 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 papers for agenda items 14 and 15, supporting documents were all deemed confidential for reasons of commerciality.

A21/54 Agenda Item 18 – Date and times of future meetings

Thursday 25 November 2021 - Audit Committee to commence at 4.15 pm, to be followed by a Joint meeting of Audit and Finance and Employment Committees from 5.15 pm

A21/55 Agenda Item 19 – Key Themes

The following key themes were identified:

- Presentation by RSM - ‘What is External Audit?’
- Final audit reports presented by AuditOne:
 - Cyber Incident Response (assurance opinion Good)
 - Subcontracting (assurance opinion Substantial)
 - Follow Up (assurance opinion Substantial, with 100% of recommendations implemented)
 - Use of Funds (advisory audit only, no assurance opinion, no areas of concern)
- Strategic and Annual Internal Audit Plan 2021 to 2024 considered and recommended to the FE Corporation for approval
- Agreed risk management processes for 2020-21 had been effective and Strategic Risk Register 2021-22 considered, with COVID-19 risks incorporated as appropriate
- Committee performance 2020-21 reviewed against terms of reference; recruitment activity proposed by the Search and Governance Committee noted; training needs discussed; amended terms of reference recommended to the FE Corporation
- Confirmed no fraud or regularity concerns.

The meeting ended at 7.15 pm.

Approved at a meeting held on 25 November 2021