

Audit Committee Minutes

Meeting held on Thursday 29th September 2022 at 5.30 pm, SRC301

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

Apologies: No apologies from committee members

In attendance: Rosalind Armstrong (Audit Manager, AuditOne), John Maher (Director, Further Education Partnership, for agenda item 8.1 only) and Claire Leece (Audit Partner, RSM)

Officials: Grant Glendinning (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 to the Corporation) and Sam Young (Governance Support Officer)

Mark Wilson and John Maher joined the meeting remotely via Teams.

A22/36 Agenda Item 1 – Appointment of Chair and Vice Chair

Members **agreed** to appoint Subhash Chaudhary as Chair and Rachel Beeken as Vice Chair for the 2022-23 academic year.

Grant Glendinning, Phil Hastie, Fiona Sharp and Kay Taylor left the meeting.

A22/37 Agenda Item 2 – CONFIDENTIAL ITEM - Standing Invitation to auditors to speak with committee members

Rosalind Armstrong reported that there were no concerns to raise from the perspective of AuditOne. There was good engagement from staff and audits were progressing smoothly.

Claire Leece reported that the external audit process had been due to start week commencing 26 September 2022 but had been delayed by one week. This was not expected to impact on the timetable for completion.

Grant Glendinning, Phil Hastie, Fiona Sharp and Kay Taylor joined the meeting.

A22/38 Agenda Item 3 – Welcome, apologies for absence, declarations of interest and notification of items of other business

The Chair welcomed all attendees to the meeting. There were no apologies for absence and no items of additional business notified for consideration. There were no declarations of interest in items on the agenda.

Claire Leece, external auditor, provided an overview of key issues impacting on the sector:

Policy issues

Levelling up remained a key government priority. Devolution, in particular, was impacting on colleges in terms of arrangements for allocation of Adult Education Budget funding.

Qualifications also continued to be an area of change, with plans to de-fund some qualifications ahead of the more widespread introduction of T Levels.

The review by the Office for National Statistics (ONS) in relation to potential re-classification of colleges as public sector organisations was ongoing. Possible areas of impact included autonomy of colleges, perceptions of employers and borrowing arrangements. The Education and Skills Funding Agency (ESFA) had asked colleges to provide details of borrowing and for permission to discuss the position with banks, ahead of the ONS decision. There could be some benefits to re-classification, for example, in respect of VAT. In response to queries, it was clarified that the Association of Colleges (AoC) was encouraging colleges and government to take time to consider the implications in the event of a re-classification. A specific impact on Etc. was that any restrictions on borrowing could impact on planned capital projects.

Governance

Funding agreements between colleges and the ESFA now specified a requirement for governance self review to take place annually and for an external review to take place every three years. In response to queries, it was confirmed that Etc. would need to arrange an external governance review before the end of the 2023-24 academic year and was looking at options to arrange a review in the 2022-23 year if possible.

Colleges failing to comply with new requirements to have regard to Local Skills Improvement Plans could be placed in intervention. The Secretary of State would also have the power to direct mergers. Linked to this, new annual accountability agreements would be introduced for colleges and the Ofsted inspection framework had recently been updated to incorporate a review of how well colleges were meeting skills needs. A member queried how governors would undertake a strategic review around new opportunities, for example, mergers, and it was confirmed that the Governors' Strategic Conference in February 2023 would be an opportunity to look at strategic planning across a three to five year horizon.

Financial Health

Although financial health across the sector had improved following increases to funding levels, the position was now deteriorating again, with pressure on budgets due to increasing utilities costs, cost of living, travel costs and examination costs.

Funding rules in relation to some funding streams were highly complex to manage and monitor, with apprenticeships and subcontracting recognised as particularly complex. Following devolution of the adult education budget, there were also differing rules around clawback dependent on funding authority.

People

Current challenges included recruitment, pay levels, impact of increases to the National Living Wage on differentials and pension scheme costs. Staff health and well-being, and engagement

and morale, remained key considerations, alongside staff training and development and a growing emphasis on equality, diversity and inclusion.

In response to queries, it was confirmed that the college recognised a risk of industrial action and had increased the risk rating in this area to 'medium', in light of the national picture. Education unions were balloting members in relation to strikes and 29 colleges nationally had been notified of industrial action. Etc. leaders were meeting regional officers and pay discussions would commence in November.

Governors suggested that it could be helpful for staff to be given opportunities to move across the group in order to gain experience and it was suggested that this could be discussed at the Strategic Conference.

Governors recognised the impact of the flux in the political landscape on colleges. In response to a query, it was confirmed that funding for operational capital projects was guaranteed (Clean Energy Education Hub at Redcar and Cleveland College and Bede extension). However, there was no clarity about whether funding would be available for planned projects, for example, relocation of NETA. If no additional funding was available, the group would be in a position to fund some work but this would be on smaller scale than initially planned.

Members **noted** the helpful update on sector issues. An additional update in relation to Audit Committee guidance (The scope of work of audit committees and internal auditors in college corporations) would be circulated to members after the meeting.

A22/40 Agenda Item 5 – Minutes of previous meetings

The minutes of the Audit Committee meeting held on 19 May 2022 were **agreed** as an accurate record of the meeting.

The action progress log had been circulated and was **noted**. The following additional updates were provided:

- Consideration would be given to combining data policies into a single policy when these were next reviewed in 2024.
- End of year arrangements in respect of NETA were in hand. It had not been possible to resolve the outstanding issues in relation to the building lease and the FujiFilm facilities before year end and a decision had therefore been taken to focus on the long term priority of lease re-negotiation.

A22/41 Agenda Item 6 - Audit plan summary 2021-22

The final audit plan summary for 2021-22 had been circulated. The Group Executive Director Finance highlighted that commencement of external audit had been delayed by one week. This was due to year end processes taking longer than anticipated due to a high number of new staff within the Finance Team. This was not expected to impact on the audit completion date.

In response to a query, it was clarified that requirements for the year end external audit process were outlined in the College Accounts Direction. The ESFA could undertake a separate funding

audit in year, and this would cover devolved funding allocated by the Tees Valley Combined Authority (TVCA).

The Summary was **noted**.

A22/42 Agenda Item 7 – Outstanding actions status report

A report had been circulated outlining the status of all outstanding audit recommendations. The Group Executive Director Finance confirmed that the outstanding internal audit recommendation relating to Accounts Receivable had now been completed and the external audit action relating to the review of the asset register for NETA Training Trust had also been completed as part of year end processes.

Members **noted** the status report and that all audit recommendations were now complete.

Agenda Item 8 – Internal audit reports

John Maher, AuditOne, joined the meeting.

Reports relating to a total of five completed internal audit reviews had been circulated and were discussed.

A22/43 8.1 – Funding Assurance (Apprenticeships)

A report arising from a recent funding assurance audit in respect of apprenticeships had been circulated. Members noted the audit opinion [REDACTED]

John Maher, AuditOne, reported that a number of recommendations related to procedural issues, for example, paperwork and packs were not up to date. Most of these issues had now been addressed and resolved. Some recommendations related to inconsistencies with data; in some cases, these related to historical issues which had been identified in previous audits but, as apprenticeships were completed over multiple years, the data remained in existence. Some errors reflected changes in rules, as one example, 'Off The Job' hours had previously been recorded to the end of assessment but was now recorded to the end of the programme and this had changed the calculation. [REDACTED] Apprenticeships was a key focus for the 2022-23 year [REDACTED] A Group Improvement Plan focussed on apprenticeships had been drawn up and an Apprenticeships Council had also been established. The Apprenticeships Council would bring together staff from across the group and its remit would cover all elements of the apprenticeships journey, from the group's apprenticeships offer, to process and systems, policy and landscape, and monitoring and oversight of achievement rates.

[REDACTED]

The audit outcome was **noted** and it was **agreed** that the new Director of Business Engagement or the Head of Apprenticeships should be invited to attend a future meeting of the committee to provide an update on actions.

A22/44 8.2 – IT Disaster Recovery

Rosalind Armstrong, AuditOne, highlighted a positive outcome to an audit review of IT Disaster Recovery, with an audit opinion of 'substantial'. One medium priority recommendation had been raised, which related to reviewing and updating documentation to support disaster recovery processes, for example, updating the Emergency and Business Continuity Plan and including contact details. In response to a query, it was confirmed that this action was now complete.

A22/45 8.3 – Subcontracting

Rosalind Armstrong presented the circulated report arising from an audit review of Subcontracting and highlighted that this had been a very positive review, with full compliance evidenced on the sample. No suggestions had been made and there was evidence of continuous improvement. Rosalind confirmed that the required certificates had been submitted in advance of the deadline. Governors acknowledged the work of the Partnerships and Projects Compliance Lead in proactively managing apprenticeship requirements and agreed that a letter should be sent to the team acknowledging the audit outcome.

A22/46 8.4 – T-Levels (advisory)

Rosalind Armstrong, AuditOne, presented the circulated report arising from an advisory review of T Levels. She highlighted that this evidenced that the college was in a good position and three recommendations had been raised.

In response to queries, it was confirmed that the group was delivering T Levels in Health, Early Years and Engineering at the Bede, Stockton Riverside College and Redcar and Cleveland College sites. The Construction T Level had been deferred, as had the Engineering T Level at NETA. Governors commented that it would be important to ensure delivery of the 45 day work placement requirement was appropriate to individual sectors and it was confirmed that this was being considered by the T Level implementation group. It was acknowledged that well-publicised problems with the Health T Level had impacted on public confidence in T Levels and, nationally, recruitment was below target. Etc. recruitment was around half of target, although recruitment to the Health T Level had been positive.

A22/47 8.5 – Follow up of Previous Recommendations

Rosalind Armstrong presented the circulated follow up report and highlighted an audit opinion of 'Substantial'. There had been a low number of recommendations raised over the year and, of the seven recommendations in scope, evidence had been provided that all had been completed. The position would be updated as part of the annual internal audit report.

The audit reports and recommendations were **agreed**.

A22/48 Agenda Item 9 – Regularity Audit

The Group Executive Director Finance presented her circulated report and clarified that the Regularity Self Assessment Questionnaire was prepared annually to support the Corporation in

drafting its statement of regularity, propriety and compliance. The Questionnaire was published by the Education and Skills Funding Agency and provided clarity around the accountability framework, key requirements and evidence that could be required by the reporting accountant. In light of the change of Accounting Officer in August 2022, a version of the Questionnaire had been prepared for signature by the former Chief Executive, together with a signed statement providing assurance in relation to preparation of the accounts. This was currently being reviewed by the external auditor, RSM. A further version of the questionnaire was provided in the papers for review by the Audit Committee and recommendation to the FE Corporation, and subsequently for signature by the Corporation Chair and the current Chief Executive, Grant Glendinning.

In response to queries, it was confirmed that the former and current Chief Executives had met on a number of occasions as part of the handover process and the Chief Executive confirmed that he had also discussed the accounts position with the Group Executive Director Finance and the Group Executive Director Planning and Infrastructure and was assured of a robust process.

Governors commented that the questionnaire provided a comprehensive checklist and it was positive to note that evidence could be provided against each line within the questionnaire. The committee **agreed** to recommend approval of the Regularity Self Assessment Questionnaire to the FE Corporation.

A22/49 Agenda Item 10 – Audit Committee performance

The Clerk presented her circulated report asking members to review the membership and performance of the committee. An outline of the committee's activity over the 2021-22 academic year was provided to support the committee's discussions. Committee members commented that the purpose of the committee and its operation was clear but recognised that it would be helpful to increase membership of the committee and, in particular, to recruit a member with financial and/or accountancy expertise. It was confirmed that this was recognised as a priority area for recruitment by the Search and Governance Committee. In relation to training and development, the Audit Committee Chair reported that he had found a recent network meeting for Audit and Finance Committee Chairs to be a helpful opportunity to meet with colleagues from other colleges. One member felt a further discussion on training and development with the Clerk would be helpful. Members were reminded that training specifically for Audit Committee members was available via the Education Training Foundation Governance Development Programme.

Auditors commented that the committee encouraged debate and challenge, and set an expectation of preparedness; auditors also highlighted the benefits of key staff involved in audits attending Audit Committee meetings.

It was **agreed** that committee performance had been effective and it was **agreed** to recommend the proposed amendments to the terms of reference and the committee cycle of business to the FE Corporation for approval. Mark Wilson would contact the Clerk to arrange a discussion in relation to training and development.

Agenda Item 11 – Risk management

A22/50 11.1 – Risk management effectiveness 2021-22

The Group Executive Director Finance presented her circulated report outlining risk management processes and impact in 2021-22. Governors noted that a request previously made by the committee to define the scope for a presentation on embedding a risk culture in an organisation had now been closed; the Audit Committee Chair and Corporation Chair had discussed this and recognised that Etc. had an open, honest and transparent culture and clear processes in place for risk identification, assessment and mitigation. In addition, comprehensive risk registers were in place for communicating, cascading and documenting risks, at both strategic and operational level.

Members **agreed** that risk management processes in 2021-22 had been effective.

A22/51 11.2 – Etc. Strategic Risk Register

The Etc. Strategic Risk Register for 2022-23 had been circulated with a covering report outlining changes made. Governors noted the proposed retirement of three risks. The Group Executive Director Finance also advised members that she was exploring options to increase automation of the process for updating the risk register and would keep members informed of progress.

Governors discussed risks related to staff turnover and it was highlighted that new risks had been added relating to recruitment and retention of staff [REDACTED] and instability in the workforce. In response to queries, it was clarified that Heads of Department monitored level of turnover within each department and staffing issues were reported to and discussed by the Finance and Employment Committee. The strategic risk register considered by the Audit Committee was at a high level and, below this, each department managed their own risk register and would discuss staffing risk at departmental level. Governors commented that failure to recruit and retain staff could become a strategic risk and noted that Risk 17, relating to recruitment and retention of staff, was rated as 'low' risk following mitigations, although staff recruitment continued to be impacted by higher salaries available in, for example, schools or industry. It was noted that an internal audit focussed on staff recruitment and retention was planned, with the report scheduled to be considered by the Audit Committee at its next meeting, and it was suggested that staff recruitment and retention be considered in further detail at that meeting.

In response to a member's request, the Group Executive Director Planning and Infrastructure agreed to ensure the risk register for capital projects was a quantitative document and aligned with the scales used in the Board Assurance Framework.

It was **agreed** that:

- i) the Group Director HR should review Risk 17, related to attraction and retention of staff, and this would be discussed in further detail at the next meeting of this committee;
- ii) the Finance and Employment Committee should be asked to consider staff recruitment at their next meeting (this would be requested as a formal recommendation and the Audit Committee Chair would also discuss with the Finance and Employment Committee Chair);
- iii) the risk register for Capital Projects would be aligned to the Board Assurance Framework;

- iv) hard copies of the Board Assurance Framework would be circulated to members in advance of the next meeting.

Agenda Item 12 – Internal Audit Strategy

A22/52 12.1 – Internal Audit Strategy 2022-23

Rosalind Armstrong presented the circulated report outlining the proposed internal audit plan for the 2022-23 academic year. She highlighted that this was a well-balanced plan with wide coverage. [REDACTED] The Plan included a number of unallocated contingency days that could be used for areas of risk and it would be appropriate to consider whether a further apprenticeships review should be undertaken once the findings of a year end funding assurance review by the external auditors, RSM, were available.

In response to a further query, it was confirmed that consideration of opportunities and threats would form part of discussions around longer-term strategic planning at the February Governors' Strategic Conference. Etc. strategic planning had typically been on an annual cycle but longer-term strategic planning processes were in development.

Members **agreed** to recommend the proposed internal audit plan for 2022-23 for approval by the FE Corporation and to review the use of contingency days further at the next meeting, following completion of the external audit funding assurance review.

A22/53 12.2 – Internal Audit Strategy development

The Group Executive Director Planning and Infrastructure presented the circulated report which aimed to support members in understanding the types of 'other income' received by the college and the assurance arrangements in place. In some cases, previous testing had been undertaken, for example, specific audits related to delivery of Strategic Development Fund funding and Department for Education Further Education Transformation Fund capital funding. In other cases, there was coverage within the 2022-23 internal audit plan. In response to a query, it was clarified that some funding streams straddled both government funding and full cost income, for example, apprenticeships. Income was reported via the Monthly Management Accounts which would be made available to all governors and the external audit reviewed all funding streams.

The report was **noted**.

A22/54 Agenda Item 13 – Policies and Strategies – Emergency Plan

The Group Executive Director presented the circulated report and Group Emergency Plan. He confirmed that, as discussed at the previous meeting, associated plans and procedures had been reviewed and the Plan had been streamlined as appropriate. Some elements were still to be completed and some action plans were still to be updated but the Audit Committee was asked to approve the overarching approach set out in the Emergency Plan.

Members were pleased to note the inclusion of some flowcharts and that further flowcharts would be added. Governors suggested that it would be helpful to improve navigation around the document, for example, colour-coding by site, and the Group Executive Director Planning and

Infrastructure agreed to take this forward. In response to queries, the Group Executive Director Planning and Infrastructure confirmed that job titles would be used in place of names and options in relation to a 'Duty Manager briefcase' were being considered. It was also confirmed that approaches to testing the Emergency Plan were being considered and discussions were taking place with the internal audit service and insurers in relation to this.

Members **agreed** to approve the overarching approach set out in the Emergency Plan and that further formal review by the Audit Committee should take place every three years or in the event of a significant event or fundamental change of approach.

A22/55 Agenda Item 14 – Post 16 Audit Code of Practice Updates

The Clerk presented her circulated report and highlighted the recent publication of an updated Post 16 Audit Code of Practice. The updates were all minor in nature.

Members **noted** publication of the updated Post 16 Audit Code of Practice and the changes made.

A22/56 Agenda Item 15 – Fraud and Regularity Update

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

A22/57 Agenda Item 16 – Any other business

A member queried how Etc. was sharing best practice across its various locations and also whether there was a collective approach to approaching employers. The Chief Executive provided examples of best practice sharing, for example, in relation to pedagogy, the Apprenticeships Council, work with regional partners, and leadership and management programmes for managers. It was also highlighted that a single Business Development Team worked across Etc. as a front end for engagement with employers and recruitment was in progress for a new Director of Business Engagement. It was suggested that these topics be considered as discussion items at the February Strategic Conference.

A22/58 Agenda Item 17 – Approval of Documents for Public Inspection

It was **agreed** that the agenda, approved minutes and reports to Items 10 and 14 would be made available for public inspection. All other supporting documents were deemed confidential for reasons of commerciality.

A22/59 Agenda Item 18 – Date, time and venue of next meeting

Thursday 24 November 2022, 5.30 pm, SRC1, Room 301 (Boardroom)

A22/60 Agenda Item 19 – Key Themes

The following key themes were identified:

- Presentation by RSM, external auditors, on key issues across the FE sector including possible impacts of the Office for National Statistics' review of the status of colleges
- Considered audit opinion [REDACTED] arising from an internal audit review of Funding Assurance (Apprenticeships) [REDACTED]; further consideration to take place at the next meeting following an external audit review of apprenticeships funding.
- Considered a further three internal audit reports, all awarded 'substantial' assurance with no formal recommendations made (IT Disaster Recovery, Subcontracting, Follow up of previous recommendations); and one advisory audit (T Levels) with three suggestions
- Regularity Self Assessment Questionnaire and Internal Audit Strategy 2022-23 recommended for Corporation approval and Audit Committee confirmed effectiveness of risk management processes in 2021-22
- Risk register reviewed and risks relating to staff recruitment and retention identified as of particular concern - request to Finance and Employment Committee to review current position and plans
- Committee self assessed its performance positively and auditors commented on good level of debate and challenge within Audit Committee meetings

The Chair thanked members for their attendance and contributions.

The meeting ended at 7.50 pm.

Approved at a meeting held on 24 November 2022