Audit Committee Minutes

Meeting held on Thursday 12 October 2023 at 5.30 pm, SRC301

Governors: Rachel Beeken, Gary Bowdler, Subhash Chaudhary (Chair), David Watson and Mark Wilson

Apologies: No apologies for absence from committee members

In attendance: Lynn Chambers (Audit Manager, RSM, joined on Teams) and Andrew McCulloch (Director of Audit TIAA)
Craig Duff (Associate Director, RSM, joined on Teams for agenda item 5 only)

Officials: Grant Glendinning (Chief Executive and Group Principal), Phil Hastie (Chief Operating Officer), Fiona Sharp (Chief Financial Officer), Sarah Thompson (Clerk to the Corporation) and Sam Young (Governance Support Officer)

Minutes of the previous meeting, an action progress log and reports for all agenda items had been circulated in advance of the meeting.

A23/40   **Agenda Item 1 – Appointment of Chair and Vice Chair**

Committee members **agreed** to appoint Subhash Chaudhary as Chair and Rachel Beeken as Vice Chair of the Audit Committee for 2023-24.

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

A23/41   **Agenda Item 2 – CONFIDENTIAL ITEM - Standing invitation to auditors to speak with committee members**

Lynn Chambers, Audit Manager RSM, confirmed that there were no concerns to report and that Etc. staff and management had been supportive; she added that the audit of the annual accounts was running to timetable.

Andy McCulloch, Director of Audit TIAA, confirmed that planning meetings had been held and a comprehensive audit plan developed; he stressed that the plan was flexible and could be adapted to respond to emerging issues.

A governor asked the audit providers if they had any examples of best practice from other clients. The Director of Audit TIAA highlighted that examples of best practice from other colleges would be included in TIAA's internal audit reports and that they could assist with contact between colleges. The Committee Chair confirmed that the audit plan had been modified as a result of examples from the colleges' sector particularly regarding cyber security best practice. It was also noted that, following comprehensive work when GDPR (General Data Protection Regulations) was initially introduced, its profile had declined across the sector and had therefore been included in internal audit planning. A governor asked about a formal handover between AuditOne and TIAA; the Director of Audit TIAA commented that this rarely

happened in the internal audit sector and that TIAA would gain sufficient insight from discussions with the Chief Financial Officer and previous internal audit reports. It was noted that it was more usual practice for there to be a formal handover between external audit providers.

Grant Glendinning, Phil Hastie and Fiona Sharp re-joined the meeting.

A23/42   **Agenda Item 3 – Welcome, Apologies for Absence, Declarations of Interest, Notification of Items of Other Business**

The Chair welcomed attendees to the meeting and a round of introductions took place. There were no apologies for absence from committee members, no declarations of interest in items on the agenda and no notification of items of other business.

A23/43   **Agenda Item 4 – Minutes of previous meeting**
The minutes of the Audit Committee meeting held on 6 June 2023 were **agreed** as an accurate record.

The action progress log had been circulated and was **noted**; verbal updates on the following action was provided:
- **Internal audit reports** – the Chief Financial Officer confirmed that the remaining internal audit reports for 2022-23 had been included in the meeting pack with three presented as final and two still in draft. A difference in the interpretation of funding rules in relation to the need for a costed plan for learner support was in the process of being resolved before the final Apprenticeship Follow Up audit report could be issued. It was noted that, although AuditOne's Audit Manager remained supportive and had been disappointed that she could not attend this rescheduled meeting, audit report finalisation had been delayed by under resourcing at AuditOne; the Chief Financial Officer confirmed that the final payment to AuditOne would not be released until all final reports had been agreed. It was also noted that, though not the sector norm, the Audit Manager AuditOne had offered a formal handover with TIAA and the Committee Chair offered his support in facilitating this if it would be useful.

Craig Duff joined the meeting via Teams.

A23/44   **Agenda Item 5 – 4Risk - Presentation**

The Associate Director RSM explained that he had a background in internal audit and now specialised in risk management and governance work with RSM; he had been working closely with the Chief Financial Officer and Governance Support Officer to implement 4Risk and considerable progress had been made in developing the new strategic risk register comprising 12 key risks, with the original 44 archived.

He then gave governors an overview of 4Risk functionality, including dashboards, analysis codes, the gross and net risk scoring matrix and Board Assurance Framework reporting. Through this, the committee would be able to challenge the controls and assurances in place. Other outputs from the system included heat maps which would identify inherent and residual risk movement; he added that the risk register format could be refined to meet the needs of

the Audit Committee and that, in order to assess whether a control was working effectively, positive and negative assurance could be shown on the Board Assurance Framework. The 12 strategic risks would be linked to operational, departmental risk registers.

Governors thanked the Associate Director RSM for a useful presentation and a governor asked whether risk appetite could be incorporated. It was confirmed that there was a Risk Appetite feature in 4Risk and that this could be set according to the risk category, allowing risk scoring to be referenced against agreed appetite. The Chief Financial Officer confirmed that risk appetite would be incorporated in due course.

The relationship between strategic risks and operational or departmental ones and the mechanism by which they could be moved was then discussed. The Associate Director RSM outlined systems used by organisations for escalating increased risks from operational to strategic risk registers and added that some audit committees considered high, red, risks from operational registers alongside the strategic register. The Chief Financial Officer explained the process of Strategic Risk Register oversight by the Senior Management Team (SMT), meeting as the Risk Management Group; operational risks were managed by heads of department and reviewed through the Business Planning / Performance Review (BP/PR) process, with heads of department alerting SMT to emerging and increased risks. The introduction of 4Risk would enable risk registers to become 'live' documents, reviewed much more frequently than the current spreadsheets.

The dangers of using a system which looked scientific but was inherently subjective were raised and a governor asked whether the Audit Committee should be carrying out deep dives on strategic risks. The Clerk confirmed that the committee had not carried out deep dives recently but that presentations relating to the highest scoring risks were included on the committee's cycle of business. The Chief Operating Officer added that the risk register informed internal audit planning, for example, the highest business continuity risk related to cyber security and was regularly reviewed in internal audits.

The Associate Director RSM concluded by explaining that governors would be given read only access to the system and that RSM would provide support for the duration of the contract. The Chief Financial Officer highlighted that a mapping exercise to the original 44 strategic risks had taken place and that resources from these would be incorporated either within the new 12 strategic risks or within operational risk registers. The Chief Financial Officer added that she would be holding one to ones with SMT members over the coming weeks and then the system would be rolled out to heads of department; a timetable had been included in the report under agenda item 6.2.

Craig Duff left the meeting.

Agenda Item 6 – Risk Management

A23/45   **6.1 – Risk Management Effectiveness 2022-23**

The Chief Financial Officer explained that the report included information on risks added and retired over the previous year and a summary of risk movement; governors were asked to consider whether risk management processes in 2022-23 had been effective.

A governor commented that it was useful to see that significant risks were being identified over the year and asked about levels of assurance that they were being controlled effectively. It was acknowledged that there was an organisational expectation that significant risks would be managed but that some risks, for example cyber security, would always be present and that their gross risk would remain significant due to the external environment. Consideration was given to whether there should be specific coding for risks outside of the organisation's control as well as those risks that would remain significant due to resource limitations, for example, treat, tolerate, transfer, terminate. A governor suggested that the focus should be on risks that should be within our control but that were not currently being well controlled. It was noted that analysis coding and bespoke reporting from 4Risk could be developed to meet the committee's needs, including risk target.

Governors **agreed** that risk management processes for 2022-23 had been effective and noted the further development of risk management processes through 4Risk functionality.

A23/46   **6.2 – Etc. Strategic Risk Register**

The Chief Financial Officer drew governors' attention to the timeline for the implementation of 4Risk; review of strategic risks and SMT training was due to take place by 27 October 2023 and then training for heads of department would be rolled out, with the aim of having departmental risk registers in place by PR3, at the end of November. The first iteration of the Strategic Risk Register would be presented to the Audit Committee at its next meeting on 30 November.

In response to a governor's question, the Chief Financial Officer confirmed that the previous manual spreadsheet was no longer in use as the risks had now all been mapped over to 4Risk; she added that the Excel-based Board Assurance Framework spreadsheet had been increasingly complicated to manage. Senior managers agreed that 4Risk would transform the risk register from a one-dimensional model to a more dynamic system and that, although the transition had taken time, would bring positive benefits. As an example, 4Risk would highlight where causes and effects did not have linked controls or actions, a weakness of the current spreadsheet. It was also felt that 4Risk would help to bring departmental risk into more focus and allow more timely relegation and promotion of risk between the strategic and departmental registers; it would also highlight to the Risk Management Group where cross-group working, as One Etc., would be useful in mitigating common or shared risks.

In response to a governor's suggestion, it was **agreed** that it would be useful to undertake some deep dives of key significant risks at future meetings, focussing on one risk per meeting.

Governors **noted** progress on risk monitoring for 2023-24 and the migration of risk registers to 4Risk.

A23/47   **Agenda Item 7 - Audit Plan Summary 2022-23**

The Chief Financial Officer confirmed that the summary detailed audit work in the previous year; it included the full year's internal audit activity by AuditOne, the ongoing external audit and funding review by RSM and the unplanned Education and Skills Funding Agency (ESFA) apprenticeship compliance audit.

A governor highlighted that there had been limited interest from internal auditors in the recent tender exercise and asked if there was a contingency plan in place should TIAA pull out of their contract; the Chief Financial Officer explained that the group would go back out to tender and a governor highlighted that the lack of audit providers was a sector-wide issue. The Director of Audit TIAA reassured governors of TIAA's strength in the sector, with a pool of approximately 100 auditors, and the unlikelihood that they would exit the FE audit market.

Governors **noted** the audit plan summary for 2022-23.

A23/48   **Agenda Item 8 – Outstanding Actions Status Report**

The Chief Financial Officer highlighted that there were nine internal audit actions listed in the status report, five of which had been completed and four with revised target dates; the rationale for each of these had been considered to be reasonable due to a change of personnel in the IT team. In response to a governor's question, the Chief Financial Officer confirmed that this post had now been filled. There were no actions arising from the audit of the financial statements for year ended 31 July 2022 and the 14 recommendations from RSM's funding audit had been reported as complete at the committee's last meeting.

A governor asked about the possible impact of the revised target dates; the Chief Operating Officer confirmed that the impact would be minor and that the Group Director of Digital Transformation was comfortable with and committed to delivering to these new dates, which represented a relatively small delay.

Governors **noted** the outstanding actions status report and the rationale for revised target dates.

Agenda Item 9 – Internal Audit Reports

A23/49   **9.1 – Subcontracting (Final Report)**

This final report confirmed a Substantial level of assurance, with one low level recommendation in the Education and Skills Funding Agency (ESFA) audit that was reported as completed; the required external assurance documents had been issued to the relevant funding bodies, the ESFA and Tees Valley Combined Authority (TVCA), in line with requirements.

A23/50   **9.2 – T Levels (Final Report)**

The final report confirmed a Reasonable level of assurance, with one high and one low level recommendation, both of which had been accepted and steps taken to rectify the issues.

A23/51   **9.3 – Business Continuity (Final Report)**

This final report confirmed a Good level of assurance, with two medium and three low level recommendations.

The Chief Operating Officer highlighted that the report's recommendations had been intended for implementation by the group prior to the internal audit. As a follow up activity, and in discussion with the group's insurers, desktop scenario testing of the plan by SMT would take place over coming months, with a target implementation date of January 2024.

[REDACTED]; in response to a governor's question, it was confirmed that regular testing took place.

A23/52   **9.4 – Apprenticeships Follow Up (Draft Report)**

The draft report currently showed a Good level of assurance, with one high, one medium and two low level recommendations, as discussed under agenda item 4.

A governor asked if any of the high level recommendations could be resolved through working on regional solutions with other colleges. The Chief Executive and Group Principal confirmed that apprenticeships was a theme in the College Collective's work and that Etc. staff were looking at best practice at DN Colleges Group; he added that funding arrangements would make it difficult to deliver apprenticeships jointly with other colleges and that, with apprenticeship compliance a sector-wide issue, it remained a strong focus at Etc. The Chief Operating Officer commented that recommendations from apprenticeship funding audits were expected as auditors assessed compliance against current funding guidance and, with this changing sometimes several times in a year, impacted evidence requirements over sometimes four-year apprenticeships. He also added that some recommendations arose from human error and that bringing in external expertise and different perspectives, for example, from the newly appointed Group Director of Business Development and Innovation, would bring improvements.

A governor asked whether the group would face similar issues with T Level funding compliance; the Chief Operating Officer highlighted that as T Levels were less complex than apprenticeships they constituted a lower risk but that early identification of any issues had been the reason for holding the recent audit of T Levels. The Director of Audit TIAA explained that TIAA had seen mixed practice during apprenticeship compliance audits and that they preferred to take targeted, rather than random, samples of records.

A governor asked if the group had the right systems for keeping track of apprenticeships and the Chief Operating Officer confirmed that the group held all key data on students in Individual Learner Records (ILRs) on ProSolution, a system used widely in the FE sector, but that processing errors could still occur during handling of paperwork.

A23/53   **9.5 – Follow Up of Previous Recommendations (Draft Report)**

The draft report indicated a Good level of assurance, though there were a small number of outstanding issues, and, as the group had never previously received less than Substantial

assurance for this audit, the Chief Financial Officer highlighted that follow up of recommendations would be a focus in 2023-24.

In response to a governor's question about the timescale for the issue of outstanding final audit reports, the Chief Financial Officer confirmed they would be finalised over the next couple of weeks; these would be circulated to committee members once received but brought to the November meeting for formal consideration.

Governors **noted** the outcomes of the Subcontracting, T Levels and Business Continuity audits and that the remaining final audit reports would be presented at the next meeting.

A23/54   **Agenda Item 10 – Annual Internal Audit Report**

The Chief Financial Officer highlighted that, though still in draft form, AuditOne's Annual Internal Audit Report had been included to give the committee early sight; the report currently gave Good overall assurance that the risks identified were managed effectively. The final report would be brought back to the committee's meeting in November for formal approval.

A governor asked whether the report had been produced solely by AuditOne or negotiated with the group; the Chief Financial Officer confirmed that Etc. had no input into the report's format unless there were factual disagreements. The Director of Audit TIAA added that they used a similar format outlining their work through the year and then giving an overall opinion and that AuditOne's was in a similar format to that used by all internal audit firms. The Chief Financial Officer commented that the report was used as the basis for the Audit Committee Annual Report and the annual accounts. Governors **agreed** that, as an Audit Committee, they should not give a greater level of assurance to the board than they had received from the auditors.

Governors **noted** the draft Annual Internal Audit Report for 2022-23 and that the final report would be formally reported at the next meeting.

A23/55   **Agenda Item 11 – Audit Committee Performance**

The Clerk outlined the annual process through which the performance of the committee against its terms of reference was evaluated; this year the report also included comments taken from minutes on meeting effectiveness and relevant comments from the external board review. In terms of training, three members of the committee had attended an Association of Colleges' (AoC) Audit Committee Masterclass, the presentation from and recording of which was available in the meeting's reference documents. She added that the cycle of business for 2023-24 included a proposed presentation on cyber security at the November meeting and then high scoring strategic risks considered at future meetings.

Feedback from governors who had attended the AoC masterclass highlighted that the content had been at quite a high level but that the breakout rooms had been valuable for gathering other governors' views and how they were addressing risk management at their own colleges. It had been a useful refresher for longer-serving members of the committee and had given assurance that other colleges had the same issues, including funding, with cyber security also deemed their highest risk. The masterclass attendees had been very open, with the Committee

Chair commenting that information sharing was not as evident at the AoC Audit and Finance Chairs' Network, which he attended each term. It was felt that other committee members would probably find it beneficial to attend and the Governance Support Officer **agreed** to circulate details of the January masterclass to Rachel Beeken and David Watson.

Governors discussed the wide range of training and development opportunities available and felt that it would be helpful to have a list of essential training, with perhaps four or five elements, for audit committee members. Governors also felt it would be beneficial to have an individually tailored training programme or guidance on which training would be the most vital; the Clerk highlighted that individual governors were already signposted to relevant training but that development opportunities were often announced in a haphazard way. She added that the external governance review had recommended that audit committee members received training on the role of the committee; the AoC masterclass was deemed valuable and the Clerk asked committee members to contact her with any other suggestions.

In response to a governor's question on whether the committee's members had a broad enough level of expertise, the Chair confirmed that financial experience had been highlighted as a gap following Stuart Blackett's move to the Finance and Employment Committee when he became Corporation Chair but that this skills gap had been filled with the appointments of David Watson and Gary Bowdler.

A governor asked whether the committee ever held sessions without senior managers to reflect on the meeting just held and requirements for the next meeting; whilst acknowledging that the committee held a session with auditors at the start of the meeting without SMT present and reflected on each meeting's effectiveness, the Chair **agreed** to consider the value of this suggested session.

Governors:
  i) **agreed** that the committee's performance had met its terms of reference in 2022-23;
  ii) **noted** feedback from Audit Committee training and that it would be useful for remaining committee members to attend the AoC Audit Committee Masterclass and for the Clerk to develop a core training and development plan;
  iii) **agreed** that no changes were needed to current committee membership, to recommend the cycle of business for 2023-24 and changes to the committee's terms of reference to the FE Corporation.

A23/56   **Agenda Item 12 – ESFA Apprenticeship Compliance Audit**

The Chief Operating Officer reminded governors that the compliance audit had begun in March 2023, with the ESFA asking for additional information in August which the group provided; the letter from the ESFA with outcomes and recommendations had been received on 6 September 2023. The recommendations had been accepted, and the member of staff responsible and implementation date of 23 November 2023 confirmed with the ESFA, with many actions already implemented.

In response to a governor's question, the Chief Operating Officer confirmed that the compliance audit had not resulted in any funding clawback.

Governors **noted** the outcomes of the ESFA Apprenticeship Compliance Audit and that recommendations had been accepted by management, with an implementation date of 23 November 2023.

A23/57 **Agenda Item 13 – Regularity Audit**

The Chief Financial Officer confirmed that the Regularity Self Assessment Questionnaire (RSAQ) was in a standard format issued by the ESFA and prepared internally to enable the external auditor's regularity audit to take place. The draft RSAQ had been provided to the Audit Manager RSM and her team following review by SMT and the Audit Manager RSM confirmed their regulatory work and testing undertaken was based on the RSAQ responses. The Chief Financial Officer confirmed that she was now asking the committee to recommend approval of the RSAQ to the FE Corporation and that it would support the Corporation in drafting their statement of regularity, propriety and compliance.

In response to a governor's query, the Chief Executive and Group Principal confirmed that the change of Chief Executive and Group Principal postholder had been submitted as part of the regularity audit.

At a governor's suggestion, it was **agreed** that in future years SMT should recommend the RSAQ to the Audit Committee to provide assurance that it had been through a scrutiny process following completion by individual managers and review by the Chief Financial Officer.

Governors **agreed** to recommend signature of the RSAQ by the Corporation Chair and Chief Executive and Group Principal, as Accounting Officer, to the FE Corporation.

A23/58 **Agenda Item 14 – Internal Audit Strategy**

The Director of Audit TIAA presented the Strategic and Annual Internal Audit Plan 2023 - 26; this included their proposed plan of work for 2023-24. The plan was based on key organisational, sector and wider risks and Etc.'s sources of assurance; emerging themes included cyber security, apprenticeships, increasing wage demands, climate change and reclassification to the public sector. Appendix A showed a rolling strategic plan outlining the likely areas for internal audit in the coming years though this would change according to the risk profile, for example, a change in government. Appendix B outlined the annual plan for 2023-24 and the rationale for each audit area; audits would be scoped in more detail prior to each audit start. The Director of Audit TIAA outlined TIAA's approach to the audit process, assurance assessment grades and performance measures, with ten day turnaround of reports due to quality assurance processes, and added that the strategy included TIAA's audit charter and confirmation of their independence from the group's management.

The Committee Chair confirmed that the plan was broadly as discussed in the planning meeting he attended but asked why the contingency days had reduced from four to two. The Director of Audit TIAA confirmed that the amount of work involved in the Cyber Security Maturity

Assessment accounted for one of the contingency days and the Safeguarding audit the other contingency day to allow the auditor to come on site. He also confirmed that TIAA was comfortable with two contingency days remaining and that Etc. was his only client with contingency days included in their plan; most clients preferred to either reorganise the plan or request additional days for contingencies. He added that the plan would be reviewed mid-year.

A governor asked how TIAA risk assessed the areas covered in the internal audit plan and the Director of TIAA explained that the plan would usually be cross-referenced to the strategic risk register and added that some areas of audit for the year had been suggested by TIAA and were not on the group's current risk profile. Sector issues would be considered when refining the plan for the coming years and the Chief Financial Officer commented that, for example, a further Safeguarding audit could be repeated on next year's plan if this year's audit highlighted any issues; the internal audit plan was flexible, reviewed in-year and for the start of each year.

Governors **agreed** to recommend the internal audit plan for 2023-24 to the FE Corporation for approval and that it would be subject to review over the year.

A23/59   **Agenda Item 15 – Fraud and regularity update**

The Chief Financial Officer confirmed that there had been no fraud and regularity issues and governors **noted** the verbal update.

A23/60   **Agenda Item 16 – Any other business**

There were no items of other business.

A23/61   **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 agenda item 11, supporting documents were all deemed confidential for reasons of commerciality.

A23/62   **Agenda Item 18 – Date, time and venue of next meeting**

Thursday 30 November 2023, 5.30 pm, SRC301, Stockton Riverside College

A23/63   **Agenda Item 19 – Meeting Effectiveness and Key Themes**

The following comments were noted about the meeting's effectiveness:
- Good agenda, with information circulated well in advance of the meeting and a useful set of papers which covered the key areas
- Lots of contributions and opportunities to ask questions
- Well chaired and finished within time
- With more committee members, it felt like there were different viewpoints and questions coming through with lots more interaction, with the expectation that this would continue to add value to the committee's work
- Comment from the Director of Audit TIAA – the challenge from governors was robust with thoughtful questions; it had been obvious that everyone had read the papers

- Observation that perhaps the gender and ethnicity balance on the committee could be improved

The following key themes were identified:
- Presentation on 4Risk – new risk management software:
- Agreement of reports arising from internal audits completed in 2022-23:
  Two further internal audit reports (Apprenticeships follow up and Follow up of previous recommendations) are to be finalised prior to year end
- New internal auditors, TIAA, in attendance at meeting
- Audit Committee membership strengthened following appointment of Gary Bowdler as co-opted member and David Watson; enhanced expertise and breadth of knowledge
- Audit Committee members had undertaken training on their role and discussed helpful enhancements to induction and ongoing development for committee members and the wider Board

The meeting ended at 7.40 pm

Approved at a meeting held on 30 November 2023