Audit Committee Minutes

Meeting held on Thursday 6 June 2024 at 5.30 pm, SRC301

Governors:	Rachel Beeken, Gary Bowdler (co-opted member), Subhash Chaudhary (Chair), John Robson (JR) (co-opted member) and David Watson
Apologies:	None received from governors
In attendance:	David Robinson (Audit Manager, TIAA) and Sue Hutchinson (Partner and Head of Charities, Beever and Struthers)
Officials:	Grant Glendinning (Chief Executive and Group Principal), Phil Hastie (Chief Operating Officer), Fiona Sharp (Chief Financial Officer), Kay Taylor (Group Director of HR & People Development), Sarah Thompson (Group Director of Governance) and Sam Young (Governance Support Officer)

A24/16 Agenda Item 1 – CONFIDENTIAL ITEM - Standing invitation to auditors to speak with committee members

The Audit Manager TIAA reported a positive working relationship with Etc. in respect of information sharing. Unfortunately, the audit programme was behind schedule due to staffing issues but TIAA was confident that all audit work would be completed by the end of the year. In response to a query, the Audit Manager TIAA confirmed that sufficient resource was available and all audits had been booked in. Governors requested distribution of completed audit reports via e-mail and also suggested front-loading the audit workload in 2024-25, to minimise the impact of a backlog.

The Partner, Beever and Struthers, reported that the handover from RSM had progressed positively to date and the Etc. Chief Financial Officer was proactively identifying and raising potential issues, [REDACTED]. In response to a query, she confirmed that there would be no impact on delivery as a result of the absence of the Audit Manager and existing staffing resource would be used as needed. She further confirmed that no issues had been identified during interim visits and appropriate systems and controls were in place. Governors recognised the benefits of a new audit partner bringing a fresh perspective to the review of systems and processes.

Grant Glendinning, Chief Executive, Phil Hastie, Chief Operating Officer, Fiona Sharp, Chief Financial Officer, and Kay Taylor, Group Director of HR and People Development, joined the meeting.

A24/17 Agenda Item 2 – Welcome, Apologies for Absence, Declarations of Interest, Notification of Items of Other Business

The Chair welcomed attendees to the meeting. There were no apologies for absence from committee members as all were present. An apology from Andrew McCulloch, TIAA, was noted. The Group Director of Governance confirmed that the meeting was quorate. There were no declarations of interest in items on the agenda and no additional items of business notified for consideration at the end of the agenda.

A24/18 Agenda Item 3 – Strategic Risk 5 - Stakeholders (Presentation and Deep Dive)

As part of a 'deep dive' into Strategic Risk 5 – Stakeholders, the Chief Executive and Group Principal presented information to the committee in respect of:

- Subcontracting
  The Chief Executive highlighted that a high level of regulation was applied to subcontracting, as funding authorities regarded this as a high risk area. Subcontracting had been identified as a strength of the group and accounted for [REDACTED] of overall Etc. income, although some funding streams were used almost exclusively for subcontracting (Prince's Trust delivery). In response to governors' queries, it was clarified that there was no longer a maximum limit for subcontracting but colleges needed to demonstrate appropriate rationale for using subcontracted delivery.

- Representation
  The group aimed to ensure it had a seat at all the 'right tables' and worked with a wide range of agencies and other organisations. There was a particularly close relationship with the Tees Valley Combined Authority, the group was a core partner in the Care and Health Innovation Zone and the group's relationship with Teesworks was strong and strengthening.

- Regional Skills Needs
  The group had utilised a wealth of labour market information (LMI) and economic data to inform the 2023-26 Strategic Plan, the group Accountability Statement and curriculum planning. Employer boards had been established to support curriculum delivery in specific areas, such as clean energy and logistics, and strong partnerships existed with key employers including the NHS and Hydrasun. In response to queries, it was clarified that the Local Skills Improvement Plan was prepared by the identified employer representative body, the North East England Chamber of Commerce for the Tees Valley, and refreshed every three years.

- FE+
  The group worked collaboratively with other FE providers in the Tees Valley through the FE+ group. A recent collaborative review of local skills needs had incorporated mapping of the curriculum in each provider, analysing this information against labour market information at a workshop involving senior leaders from colleges, and agreeing a common statement for inclusion in each provider's Accountability Statements. FE+ had been recognised as pioneering in this respect and the Chief Executive had presented to the AoC Governance Summit in relation to this.

- Ofsted Skills Judgement Preparation
  The group was collating information about activity with stakeholders at departmental level as part of preparation for the next Ofsted inspection. In response to a query, it was confirmed that action planning would take place as phase 2 of the work, following collation and review of the data.

In response to a query, the Chief Executive clarified that colleges in the Tees Valley worked with around 2,000 employers; Etc. was working with around 460 employers.

Governors asked whether areas of good practice had been identified through the work of FE+. The Chief Executive clarified that the process had focussed on identifying areas of overlap and complementary provision. As one example, he highlighted that Etc. had relatively little digital delivery, particularly at higher levels, while Middlesbrough College offered significant provision in areas such as game design and coding. There was duplication at lower levels, for example, in English for Speakers of Other Languages and Hairdressing, as would be expected. The colleges worked collaboratively in areas such as bidding for Strategic Development Funding. Governors suggested that Etc.'s approach to digital delivery needed to be carefully considered, recognising that this was a significant area of demand but came with staff recruitment challenges. The Chief Executive highlighted that Etc. was developing a particular sector focus in respect of digital delivery, for example, digital technology for health.

Governors also asked about relationships with universities. It was clarified that three FE+ colleges worked with Teesside University, one with The Open University and one was seeking to obtain its own university status. There were no plans to seek an alternative higher education partner for Etc. at this time.

Governors recognised that the group worked with a large number and huge variety of stakeholders and asked how the group ensured relationships were managed robustly. The Chief Executive clarified that the One Etc. approach was supporting more streamlined relationships and, under the leadership of the Group Director of Marketing, the Business Development Unit was being reinvigorated, with investment also being made in Client Relationship Management (CRM) software.

The detailed review of Strategic Risk 5 – Stakeholders was **noted.**

A24/19 Agenda Item 4 – Minutes of previous meeting

Minutes of an Audit Committee meeting held on 8 February 2024 had been circulated and were **agreed** as an accurate record.

Updates against actions from previous meetings had also been circulated and were **noted.** It was **agreed** that the focus for the 'deep dive' at the first meeting of the 2024 autumn term should be apprenticeships, provided this did not conflict with any presentation to the FE Corporation. It was acknowledged that the regular reviews of apprenticeships by the Standards Improvement

Committee primarily related to outcomes and quality of delivery, while the focus for Audit Committee was on compliance with regulatory requirements.

A24/20 Agenda Item 5 – Audit Plan Summary

Governors **noted** the updated 2023-34 audit plan and requested that the audit plan for 2024-25 be front-loaded. It was acknowledged that audit work often fell behind schedule in many organisations and greater front-loading could assist in ensuring a more even spread of workload.

Members also discussed the process for approval of audit scopes. It was confirmed that high level scopes for all audits were agreed at the beginning of the year, with input from the Audit Committee Chair. However, it would be possible to present more detailed individual scopes within the Audit Committee meeting cycle if this would be helpful for members. It was **agreed** that the scope for the cyber-security audit and maturity assessment should be shared with John Robson for information and comment.

A24/21 Agenda Item 6 – Outstanding actions status report

The Chief Financial Officer presented her circulated report providing an update on the status of agreed audit recommendations. She highlighted that most actions were now complete. An extension to 31 July 2024 for an action arising from a follow up review of apprenticeships [REDACTED] had been requested. The Chief Financial Officer clarified that this was not regarded as a high risk area as it related to review of historic documents, and the delay had arisen due to staffing issues within the team. Governors asked whether the challenges experienced by the group in respect of apprenticeships reflected staffing shortages. The Chief Operating Officer clarified that this specific recommendation related to the compliance team; a range of teams were involved in apprenticeships, including the Business Development Team (for initial identification of apprenticeship opportunities), curriculum teams for delivery and the quality team for quality assurance. Senior leaders would be undertaking cultural work with the compliance team to ensure clarity around expectations. Plans were in place to streamline processes but staff sickness and turnover had impacted on the speed of change. Governors were reassured that appropriate processes were in place for current sign ups.

In response to a query regarding an audit of Business Continuity in the 2022-23 academic year, the Chief Operating Officer confirmed that risks related to ransomware were taken into account by the group and the group made use of the National Cyber Security Centre's training resources. It was reported that the Audit Committee had undertaken a 'deep dive' of group arrangements to *'protect against cyber crime and unwanted external access to Group IT systems'* in November 2023. John Robson reported that he planned to discuss cybersecurity arrangements at the Etc. with the Group Director of Digital Transformation and would feed back to the next meeting of the Audit Committee.

The update was **noted** and the requested extension to the due date for collecting backdated signatures in respect of apprenticeship provision was **agreed.**

A24/22 Agenda Item 7 – Internal Audit Reports

The Chief Financial Officer presented her circulated report outlining progress against the internal audit programme for 2023-24. The Summary Internal Controls Assurance (SICA) report provided by the internal audit service, TIAA, had also been circulated.

The following audits were discussed:

Safeguarding (final report)
The final report had been circulated with the meeting papers. The audit judgement was for 'Substantial Assurance' and one low level, routine recommendation had been identified relating to housekeeping of the Single Central Record. This recommendation had been actioned.

Assurance review of sub-contracting arrangements (final report)
The final report had been circulated with the meeting papers. The audit judgement was for 'Substantial Assurance' and no recommendations had been identified.

Data Protection (GDPR) (update)
The Audit Manager, TIAA confirmed that fieldwork on the Data Protection audit had now been completed and a report was being drafted. The draft audit opinion was for reasonable assurance and six recommendations had been identified.

The remaining audits planned for 2023-24 (Follow up of previous recommendations; Corporate Governance (Managing Public Money); Data Quality (Funding); Assets and Inventory; Cyber Security Maturity Assessment) had commenced or were due to commence in the near future.

It was noted that no significant recommendations had been raised in the two audits completed to date; members recognised that safeguarding and subcontracting had been particular areas of focus for Etc. and arrangements would be expected to be robust and secure. In response to a query about benchmarking with other providers, the Audit Manager, TIAA clarified that no specific benchmarking data was collated but safeguarding and subcontracting were usually high performing areas in audits because of their criticality in the sector, with subcontracting an area of focus for the Education and Skills Funding Agency and safeguarding a key area of review by Ofsted.

The update was **noted** and it was **agreed** that final audit reports should be circulated to members via e-mail as these became available, with formal review at the Audit Committee meeting in the autumn term.

A24/23 Agenda Item 8 – External Audit Strategy for audit of 2023-24 accounts

The Partner and Head of Charities, Beever and Struthers, presented the circulated external audit strategy for the 2023-24 accounts. Members asked why materiality was set at [REDACTED], equivalent to 2% of group expenditure, commenting that this was equivalent to the group's operating profit. The Partner, Beever and Struthers, clarified that, in non-profit organisations, materiality was usually set at between 1% and 30% of either income or expenditure. The group could opt for a lower level of materiality but this would increase the level of audit work required and, consequently, audit costs. She further clarified that auditors would identify any adjustments over the level of triviality (£32,897) but only those over the level of materiality would be automatically adjusted. The group could choose to adjust any amount and management would usually wish to make any significant adjustments. She highlighted that there would be increased external audit sampling in this first year of the audit relationship.

Members asked whether alternative presentation of the funds held by the group for specific capital projects could be considered, highlighting a misunderstanding by unions about the availability of this funding following publication of the 2022-23 accounts. The Partner, Beever and Struthers, agreed to review the wording of FRS102 to ascertain potential options.

Members also asked whether pension assets could be presented as capped at zero. The Chief Financial Officer confirmed that she would work with the external audit service on the presentation of pension assets following receipt of the annual actuary report.

Members asked for an update about the outstanding VAT refund that had not been repaid to the group [REDACTED]. The Chief Financial Officer clarified that the group had received an acknowledgement from HMRC of the letter lodged by the group's VAT advisors, Johnson Carmichael (JCCA). JCCA had suggested that a HMRC decision could take a number of months and the group's legal advisors, Stone King, would contact JCCA to understand the likely timescale. The Chief Financial Officer would discuss audit treatment of the outstanding VAT refund with Beever and Struthers, including whether the refund could be moved from debtors to fixed assets. This would then be depreciated over the life of the asset (60 years) and so would have a minimal impact. Members supported this solution if technically possible and requested that a written clarification be provided to the committee explaining the rationale and advice.

Members **agreed** to recommend adoption of the External Audit Strategy for the 2023-24 final accounts to the FE Corporation

Agenda Item 9 – Risk management

A24/24 9.1 – Etc. Strategic Risk Register

The updated Strategic Risk Register, in the format of a Board Assurance Framework, had been circulated and the Chief Financial Officer confirmed that the Risk Management Group (Senior Management Team) had taken on board a challenge from the Audit Committee at a previous meeting to reflect on whether too many risks were scored as low or very low. Senior managers also reported on increased engagement in the Risk Management Group and more widely within the organisation as a result of introduction of the 4Risk system and governors were pleased to note that the anticipated benefits of the system were being realised.

The updated Strategic Risk Register was **noted** and it was **agreed** that the more streamlined Strategic Risk Register would be presented to future meetings of the committee to support governors in accessing and monitoring the information. The Governance Support Officer offered support to any committee members that wished to explore use of the 4Risk system. It was also **agreed** that dates of Apprenticeship Council meetings would be shared with David Watson, who planned to attend a session to understand how the risk register was being used to support the work of the group.

A24/25 9.2 – Risk Management Strategy 2024-25

The proposed 2024-25 Risk Management Strategy had been circulated and the Chief Financial Officer asked members to note inclusion of a draft Risk Appetite statement, drawn up in line with feedback from governors and senior managers. Governors suggested that a briefer Risk Appetite Statement would provide more flexibility and the Chief Financial Officer agreed to remove information relating to development of the statement and focus on a limited number of brief assertions. In response to a query, she confirmed that the risk matrix included scoring descriptors.

It was **agreed:**

i) that the Chief Financial Officer would re-draft the risk appetite statement and share with committee members for comment prior to presentation to the July FE Corporation meeting;
ii) to recommend to the FE Corporation approval of the Risk Management Strategy 2024-25, subject to amendments to the Risk Appetite Statement as above.

A24/26 9.3 – Succession Planning (shallow dive)

The committee had previously identified staff retention and recruitment as a key risk for the group. The Group Director of HR and People Development reported that a range of activity had taken place to support succession planning as part of the group's People Strategy, including:

- learning and development activity across the group, including a bespoke leadership skills programme (cohort 2 had been recently launched), supported by a central Continuous Professional Development (CPD) budget
- introduction of 'stay' conversations
- revised appraisal process, focussing on behaviours and tone of voice; a systems based appraisal process had been piloted
- improved capturing of Continuous Professional Development (CPD) activity

The group was now moving to the introduction of talent management processes; to date, 4.8% of staff had been highlighted as future talent and invited to attend the upcoming Etc. Leadership Conference. In response to queries, the Group Director of HR and People Development clarified that the talent conversation proforma was in place, which outlined potential discussion topics and explained the organisation's willingness to invest in learning and development. She also confirmed that development plans for top-performing staff would be co-ordinated, linked to the introduction of talent conversations. The model to be rolled out across the group, which identified core staff, under-performing staff and future leaders, had been used successfully at NETA.

Governors asked about succession planning for small teams. The Group Director of HR and People Development clarified that 29 critical posts had been identified in the first tranche and the group was now identifying clear successors or alternative arrangements, for example, interim cover. In response to further queries, the Group Director of HR and People Development confirmed that the group was continuing to work on processes, for example, whether identified successors could be automatically appointed or would need to go through a recruitment process. Governors also suggested model career paths could be mapped to help staff understand potential succession routes. The Group Director of HR and People Development outlined examples of staff progressing from learning support roles to teaching roles within the Prince's Trust team.

Governors were pleased to **note** significant progress in respect of succession planning across the Etc.

A24/27 Agenda Item 10 – Audit Documentation

The Group Director of Governance presented her circulated report summarising updates to the Post 16 Audit Code of Practice, Regularity Self Assessment Questionnaire and College Accounts Direction. The changes made were minor in nature and related to updated guidance, new accounting requirements and revised terminology.

Members **noted** the updates.

A24/28 Agenda Item 11 – Fraud and regularity update

The Chief Financial Officer confirmed that there had been no fraud and regularity issues.

The update was **noted**.

A24/29 Agenda Item 12 – Policy updates

The following updated policies had been circulated:

- Anti Bribery
- Anti Fraud
- Whistleblowing

Governors noted that policies stated that staff would be trained but did not specify frequency of training. The Group Director of HR and People Development confirmed that this would be discussed with the Senior Management Team, as well as processes for monitoring compliance, and proposals would be presented to the next People Committee meeting on 18 June.

In response to a query, it was confirmed that a log of policies, including approving body and approval date, was maintained and presented to the FE Corporation annually.

Governors asked whether staff were required to provide a signature to acknowledge receipt of and confirm compliance with policies, for example, the Staff Code of Conduct. The Group Director of HR and People Development confirmed that relevant policies were circulated annually but signatures were not currently requested. The Chief Executive agreed to discuss with the Senior Management Team whether this would be appropriate and could be facilitated using existing systems.

Governors **approved** the updated Anti Bribery, Anti Fraud and Whistleblowing policies.

Governors thanked the representatives of TIAA and Beever and Struthers and Sue Hutchinson and David Robinson left the meeting.

A24/30 Agenda Item 13 – Internal Auditor Performance

The Chief Financial Officer presented her circulated report summarising performance of the internal audit service [REDACTED]

The Chief Financial Officer confirmed that she intended to arrange a meeting with TIAA to discuss expectations and would ensure more robust contract management by the Etc. Procurement Manager. The committee Chair offered to support at this meeting if appropriate and helpful.

Members noted that only one provider had tendered for the group's internal audit contract in 2023. Other local colleges had experienced a similar position, potentially due to timing of the tender process, which had coincided with a change of college status to public sector organisations.

Governors **agreed** to recommend to the FE Corporation that TIAA should continue to be engaged as the group's internal audit service for the 2024-25 year subject to clear expectations being agreed. The Chief Financial Officer and Etc.'s Group Procurement Manager would arrange to meet with TIAA to discuss this year's performance and the improvements required for 2024-25.

A24/31 Agenda Item 14 – Any other business

There were no items of additional business.

A24/32 Agenda Item 15 – Approval of Documents for Public Inspection

It was **agreed** that the agenda, approved minutes and supporting documents for Item 10 would be made available for public inspection. Policies considered under Agenda 12 would be published in final form. All other supporting documents were all deemed confidential for reasons of commerciality.

A24/33 Agenda Item 16 – Dates, times and venues of future meetings

It was **agreed** to schedule Audit Committee meetings for the 2024-25 academic year as follows:
- Thursday 10 October 2024, 5.30 pm
- Thursday 28 November 2024, 5.30 pm
- Thursday 13 March 2025, 5.30 pm
- Thursday 19 June 2025, 5.30 pm

All meetings would take place at Stockton Riverside College.

A24/34 Agenda Item 17 – Meeting Effectiveness and Key Themes

The following comments were made about the meeting's effectiveness and, in particular, how governors had challenged at the meeting:

- Governors had demonstrated engagement with detailed information and had robustly challenged management
- Documentation and reports were of high quality, pitched at the right level and had been circulated punctually in advance of the meeting, which supported members to ask questions
- A good professional relationship was in place with the external audit service, Beever and Struthers
- The deep dive process had been helpful in understanding a highly complex area; the risk owner had found the process beneficial in considering the risk in depth
- Senior managers had found discussions at the meeting valuable, particularly in relation to accounting treatments, risk analysis and managing relationships with trade unions

The following key themes were identified:
- Presentation from the Chief Executive and Group Principal and deep dive into Strategic Risk 5: Stakeholders: failure to identify and work collaboratively with key stakeholders and partners; the committee gained assurance on the controls in place
- Updates on the internal audit plan and progress against outstanding audit recommendations; the committee considered and agreed requests to extend deadlines for two actions
- Final reports for the Safeguarding and Sub-contracting audits presented by the Audit Manager, TIAA; the committee was pleased that the audit opinions were for Substantial Assurance, confirming a robust system of internal controls was operating effectively to mitigate risks
- Reports on remaining internal audits in 2023-24 would be circulated to the committee as they became available; the committee requested front loading of the 2024-25 internal audit plan
- The Partner and Head of Charities, Beever and Struthers, presented the external audit strategy for the audit of the 2023-24 accounts including key risks, materiality and timeline; discussion of materiality levels, external auditor assurance and consideration of accounts presentation of Surgo irrecoverable VAT repayment and capital grants not yet spent
- Strategic Risk Register reviewed, with shallow dive of succession planning, and amendments suggested to the presentation of the risk appetite statement and framework in the Risk Management Strategy 2024-25; updated risk appetite statement would be considered for approval by the FE Corporation
- Anti Fraud, Anti Bribery and Whistleblowing policies approved and discussion of the frequency of mandatory training and informal briefings; the committee noted that this would be considered by the People Committee and that TIAA had offered support for fraud training

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

A24/35 Agenda Item 18 – Closing discussion

In line with a suggestion made at the previous meeting, governors were invited to raise any comments in a confidential session. The following comments were made:
- The Senior Management was receptive to challenge; this reflected the open and transparent culture at Etc.
- Meetings had a good balance of formal and informal elements; the Chair was recognised as pivotal in setting this tone

- Some concern was expressed that audit reports had no actions and that audits were delayed: was the Audit Committee receiving sufficient assurance and should more investment be made in internal audit?
- It would be helpful to understand more detail in relation to audit scopes, e.g. cybersecurity
- Members expressed some concern about succession planning arrangements for the most senior staff. It was recognised that this was an area considered by Remuneration Committee and consideration would be given as to how the Remuneration Committee could provide assurance to the Audit Committee about arrangements in place.
- Consideration should be given to presentations by staff outside the Senior Management Team as a way of providing assurance to the committee

The meeting ended at 8.30 pm

Approved at a meeting held on 10 October 2024