Audit Committee Minutes

Meeting held on Thursday 10 October 2024 at 5.30 pm, SRC301

Governors:	Rachel Beeken, Gary Bowdler (co-opted member), John Robson (JR) (co-opted member) and David Watson (Chair)
Apologies:	Subhash Chaudhary
In attendance:	David Robinson (Audit Manager, TIAA) and Jason Burgess (Audit Manager, Beever and Struthers)
Officials:	Jason Faulkner (Deputy Chief Executive, Curriculum), Grant Glendinning (Chief Executive and Group Principal), Fiona Sharp (Chief Financial Officer), Sarah Thompson (Group Director of Governance) Erika Marshall (Group Director of Marketing and Business Engagement) and Peter Wood (Group Director of Quality) attended the meeting to Item 4, Apprenticeships

A24/36 Agenda Item 1 – Appointment of Chair and Vice Chair

Committee members **agreed** to appoint David Watson as Chair and Rachel Beeken as Vice Chair of the Audit Committee for 2024-25.

Members were advised that four new governors would be recommended for appointment and it was likely that one of the newly recruited governors would be asked to join Audit Committee to strengthen membership following the end of Subhash Chaudhary's term of office.

A24/37 Agenda Item 2 - Standing invitation to auditors to speak with committee members

The internal and external audit representatives confirmed that there were no issues they wished to raise confidentially with the committee. Staff members were therefore not asked to leave the room for this item.

A24/38 Agenda Item 3 – Welcome, Apologies for Absence, Declarations of Interest, Notification of Items of Other Business

An apology for absence was received and accepted from Subhash Chaudhary. It was noted that Subhash's term of office as a governor would end on 20 October 2024 and governors had recognised his exceptional contribution as Audit Committee Chair at the last meeting of the committee held in June 2024.

There were no declarations of interest in items on the agenda.

Members **agreed** to consider a brief verbal update on key issues across the group from the Chief Executive as an additional item at this meeting and as a standing agenda item at future meetings.

It was also requested that consideration of all reports included in the meeting pack was focussed on questions / queries, with the exception of deep / shallow dive items.

A24/39 Agenda Item 4 – Apprenticeships

4.1 - The Apprenticeship Journey (presentation / deep dive)

A briefing paper had been circulated which outlined apprenticeship programme design, funding and eligibility, role of employers, apprenticeship standards offered by Etc., achievement rates, areas for improvement, actions taken and future plans. The Deputy Chief Executive, Group Director of Quality, and Group Director of Marketing and Business Engagement delivered a supporting presentation: key areas of enquiry by governors included:

- Withdrawal of students: it was noted that withdrawals impacted on funding but also, and more significantly, had a long-term impact on the group's quality data and, critically, a potential adverse impact on apprenticeship students themselves
- Funding rules and requirements: highly complex requirements, including in relation to retrospective application of funding rule changes to active apprenticeships
- End-point assessment: external assessment included skills test, knowledge test and professional discussion – this could be a difficult requirement for more practical trades
- Mapping of Etc. offer to local skills needs: this was evidenced, and the group flexed its provision to meet employer needs
- Relationships with apprentices, particularly on work-based learning programmes: personal development was delivered on a one to one basis and quality assurance around provision and safeguarding was provided via deep dives through curriculum reviews
- Relationships with employers: formal and informal information-sharing with colleagues across the sector
- Achievement rates: Etc. rates above national but required improvement; withdrawing learners were supported with offer of alternative course or employer where possible
- Change to completion date had materially impacted achievement rates; review of staff roles had ensured clarity of expectations; group structure was being used to form a critical mass and ensure stability and resilience of teams
- FE Commissioner support planned for October – requested by Etc. as fundamental review to support further improvement

Members thanked the Deputy Chief Executive, Group Director of Marketing and Business Engagement, and Group Director of Quality for the very helpful presentation.

4.2 - Outcomes of internal sampling of apprenticeships learning activity records

This information had not been made available to the committee. It was **agreed** to defer this item to the next meeting of the Audit Committee in November 2024**. (ACTION POINT)**

Erika Marshall and Peter Wood left the meeting.

A24/40 Additional Agenda Item – Chief Executive's Update

The Chief Executive reported on the following:

- Performance review Period 12 was in progress and validation of the Group Self Assessment Report had recently taken place – achievement rates for 2023-24 had been positive and student recruitment for 2024-25 was also healthy
- Etc. was anticipating an Ofsted inspection during 2024-25 and preparation for this was in progress
- The FE Commissioner Team had been invited to undertake a root and branch review of the group's apprenticeship provision
- National policy discussions around the apprenticeship levy could impact on colleges, for example, a potential cap on use of apprenticeship levy for degree apprenticeships and possible introduction of foundation apprenticeships
- Some potentially positive developments in respect of curriculum review, with acceptance that some overlap between BTECs and T Levels would be possible where there was a rationale for this
- National focus on clean energy with announcement of £22bn investment in carbon capture and recent publication of the National Energy Skills consortium's manifesto
- Etc. was receiving good support from local MPs, particularly Redcar and Stockton North
- ESFA funding audit currently in progress
- Following a decision by the FE Corporation, acquisition of the leasehold for the current NETA premises was progressing
- Work was ongoing with the Tees Valley Mayor and Tees Valley Combined Authority to improve effectiveness of funding for adult skills
- Etc. had recruited a new Group Director of HR and People Development, Adele Currie, who would take up post in early November
- The group was hopeful that agreement could be reached with the unions in relation to the ongoing pay dispute and strike action scheduled for 10 October had been cancelled.

The update was **noted** and members were pleased to note, in particular, the investment in carbon capture.

A24/41 Agenda Item 5 – Internal Audit Reports 2023-24

5.1 – Assets and Inventory

This audit opinion arising from this review was for Limited assurance and five 'Important' level recommendations had been raised. The Chief Financial Officer reported that the audit had highlighted a requirement for a fundamental review in this area. Members asked whether any interim measures were needed; the Chief Financial Officer confirmed that systems were in place but the group now needed to assess the rationale for and value of activities in this area. In response to a further query, the Chief Financial Officer confirmed that the group expected recommendations to be implemented by late January to allow a follow up review. In response to a query relating to materiality, the Chief Financial Officer clarified that the group set a capitalisation threshold of £1k for a single item or group of items while the asset inventory included items valued at or above £200. A priority would be to review the appropriateness of limits and address issues arising from the use of separate systems within the IT and Estates team.

A member asked whether the group was surprised at the audit opinion and recommendations. The Chief Financial Officer clarified that this area had been impacted by staffing changes and had been recognised as an under-performing area. This was part of the rationale for an internal audit review. Governors stressed that they would wish to receive updates on new controls and the approach to measuring compliance in this area, highlighting that the limited assurance opinion and high number of important recommendations were concerning.

Members **agreed** the internal audit report and recommendations, subject to review of implementation dates, and acknowledged the intention to fundamentally review systems and processes in this area. **(ACTION POINT)**

5.2 – Corporate Governance (Managing Public Money)
The audit review in this area had provided audit assurance of Substantial with two 'Routine level' recommendations identified.

Members **agreed** the report and recommendations.

5.3 – ICT Data Protection
This final report confirmed a Reasonable level of assurance, with a total of six recommendations, three 'Important', three 'Routine', as well as one 'Operational' suggestion. The Chief Financial Officer confirmed the group's disappointment at this outcome.

Members discussed arrangements for mandatory and non-mandatory training, specifically the importance of ensuring all areas of mandatory training had been identified and that there was full compliance with this. The Chief Executive reported that this had been identified as an area requiring improvements and the Group Director of Digital Transformation was reviewing options for a centralised system which would allow better tracking of compliance with mandatory training. Updates would be reported to future meetings of the committee.

Members suggested that it would be helpful to understand how data breaches were recorded and receive updates around breaches. The Chief Financial Officer confirmed that a data breach register was in place.

Members **agreed** the report and recommendations and **agreed** to extend the standing agenda item for Audit Committee on regularity and fraud to incorporate data breaches. **(ACTION POINT)**

5.4 – Follow Up of Previous Recommendations (Draft Report)
The report confirmed that 19 of 23 audit recommendations had been implemented, with three outstanding and one not yet due. The Chief Financial Officer reported that, as detailed in Item 8, Outstanding Audit Recommendations, a further two recommendations were now complete, one had been implemented and one outstanding action, relating to staff training, had a revised completion date.

Members noted that there had been a number of instances of slippage against target implementation dates and stressed that it was important to understand the reasons for this. Audit Committee members confirmed their support for a pragmatic approach and an expectation that best practice recommendations should only be accepted where these would be helpful. The Chief Financial Officer confirmed that there was a need to ensure managers understood that recommendations could be rejected if these were not of value. The TIAA Audit Manager clarified that exit meetings included an opportunity to discuss the value of recommendations and whether these should be included in final audit reports.

Members **agreed** the report and requested that all staff be aware of the committee's expectation of a pragmatic approach.

5.5 – Annual Internal Audit Report and audit opinion

The Annual Internal Audit Report from the group's internal auditors, TIAA, had been circulated. The TIAA Audit Manager highlighted that compliance at the Etc. was slightly lower than was usually seen in the sector. Members noted that only 30 of the planned 40 audit days had been utilised and asked why the audits of Data Quality (Funding) and Cyber Security Maturity Assessment had been deferred. The Chief Financial Officer clarified that senior managers had requested cancellation of the Data Quality audit to allow relevant staff members to focus on the statutory Education and Skills Funding Agency funding audit and the external year end audit; the Cyber Security Maturity Assessment had been deferred to the 2024-25 academic year, as the group and TIAA had been unable to agree dates close to the end of the academic year.

Members **accepted** the Annual Internal Audit Report for 2023-24 subject to inclusion of a summary of the work undertaken by the internal audit service; members also **noted** the internal audit assurance opinion of Reasonable.

A24/42 Agenda Item 6 – Minutes of previous meeting

Minutes of an Audit Committee meeting held on 6 June 2024 were **agreed** as an accurate record.

The action progress log had been circulated and was **noted.**

JR reported that he had reviewed Etc.'s cybersecurity arrangements and had found the group's approach, diligence and architecture to be positive. The Chief Executive agreed to feedback the recognition of JR and the Audit Committee to the IT team.

A24/43 Agenda Item 7 – Internal Audit Plan and Audit Plan Summary 2023-24

A summary of internal audit work completed in 2023-24, as well as external and funding audit work currently in progress had been circulated and was noted. The Chief Financial Officer requested retrospective approval for changes to the internal audit plan and engagement of the internal auditor for additional work.

Members **agreed**:

i) to recommend retrospective approval of the changes to the Internal Audit Plan for 2023-24 to the FE Corporation;
ii) retrospectively, to engage TIAA as independent auditor to sign off a certificate in relation to the Taking Teaching Further grant, as per DfE requirement.

A24/44 Agenda Item 8 – Outstanding Audit Recommendations - Status Report

The Chief Financial Officer presented her circulated report providing an update on the status of agreed Internal Audit, External Audit and Funding audit recommendations. Members reiterated the importance of resolving overdue actions, either by means of implementation or removing those that were not of value.

The report was **noted** and members **agreed** to extend the implementation date for two actions relating to review of procedures for management of data centres and development of a data protection notice for employees and applicants, recognising that delayed implementation related to system issues and staff absences. **(ACTION POINT)**

A24/45 Agenda Item 9 – ESFA Funding Assurance Audit Review

In the absence of the Chief Operating Officer, the Chief Executive presented the circulated report providing a progress update on the Education and Skills Funding Agency (ESFA) funding assurance audit review. He highlighted that the audit was currently in progress. Some lines of enquiry in relation to 16-18, Adult Education Budget and Apprenticeship funding had been identified but no significant funding clawback was anticipated. It was anticipated that the final audit report would be available for the next meeting of the Audit Committee.

The update was **noted**.

A24/46 Agenda Item 10 – External Audit Update including Regularity Self Assessment Questionnaire and Appendix

The Chief Financial Officer clarified that the Regularity Self Assessment Questionnaire (RSAQ) was in a standard format issued by the ESFA and prepared internally to support the external auditors' regularity audit. In response to a query, the Chief Financial Officer confirmed that individual elements of the report were drafted by relevant senior managers; as previously requested by the Audit Committee, the Senior Management Team had formally reviewed and agreed the final Questionnaire. The Audit Manager, Beever and Struthers confirmed that the questionnaire would be used alongside a review of internal controls and processes, for example, tender process, use and management of credit cards and staff expenses, to support the auditors in identifying an audit opinion on regularity. There were no concerns at this time to raise with the committee.

Members **agreed** that they were satisfied with the process followed in collating the RSAQ and agreed to recommend signature of the RSAQ by the Corporation Chair and Chief Executive and Group Principal, as Accounting Officer, to the FE Corporation. **(ACTION POINT)**

Members discussed key issues impacting the 2023-24 financial statements: specifically, the outstanding VAT repayment, treatment of the pension asset, and treatment of the restructuring fund. The Chief Financial Officer had circulated a briefing paper to Audit members in advance of this meeting outlining proposed actions in respect of the outstanding VAT repayment and she thanked Beever and Struthers for their support in finalising this position. She confirmed that HMRC had now acknowledged receipt of the Etc. letter and had confirmed that a response would be provided by 20 November 2024. This was such a unique situation that it was difficult to determine likelihood of success. The 2023-24 accounts would include a contingent asset note and it was hoped to resolve the matter during the 2024-25 academic year. As the group intended to capitalise the outstanding amount if no repayment was received, the Chief Financial Officer was confident that there would be no material detrimental impact on the Income and Expenditure. If the claim was successful, a [REDACTED] commission payment would be payable to the VAT advisors JCCA. The briefing note had also been shared with the Corporation Chair and the Chair of Finance, Capital and Resources Committee and the planned treatment had been discussed with the Finance, Capital and Resources Committee, who were content with this approach.

An element of the Restructuring Fund, which had been received to support the merger between Stockton Riverside College and Redcar and Cleveland College, was included in long-term liabilities until the end of the agreement. This reflected that there was an element of recoverable grant as part of the agreement. The group did not anticipate clawback of this funding but felt it was prudent to retain this in long term liabilities at present. The Audit Manager, Beever and Struthers, confirmed that the external auditors had reviewed the grant awarding letter and found some unclear wording. As sign off had not yet been agreed by the ESFA, the view of the external auditors was that the college was correct to continue to recognise this as a liability. Beever and Struthers had prepared a note for discussion in respect of this issue and the Chief Financial Officer confirmed that she would prepare a briefing note for governors in due course. A briefing note relating to the pension asset would also be prepared.

In response to a query, the Beever and Struthers representative confirmed that there were no significant issues to flag in respect of the external audit and auditors were confident that the audit would be completed in line with agreed timescales.

The external audit updated was **noted.**

Jason Burgess left the meeting.

A24/47 Agenda Item 11 – Risk Management

11.1 – Risk Management Effectiveness 2023-24

The Chief Financial Officer presented her circulated report and highlighted significant development of risk monitoring during the 2023-24 year, with further improvements and enhancements planned for 2024-25. Members recognised that a new process had been introduced during the 2024 spring term to include discussion of strategic risks by committees of the Corporation; there had been some inconsistencies in the level of scrutiny and challenge across committees and the Audit Committee agreed that it would be appropriate to encourage all committees to continue to embed this important element of their work. The Chief Executive highlighted improved effectiveness of the Risk Management Group with a focus on the macro-environment. In response to a query around the potential for internal and external auditors to provide contextual information on risk register content across the sector, the Audit Manager TIAA reported that TIAA was involved in a project in which AI was being utilised to identify common themes across risk registers; he agreed to notify the group of expected timescales for this. The Chief Financial Officer agreed to discuss with Beever and Struthers whether they were in a position to provide similar information.

Members **agreed** to recommend to the FE Corporation:

i) that risk management processes for 2023-24 had been effective;
ii) that all committees should continue to embed risk management and should ensure that they were providing challenge and input in relation to this aspect of their remit;
iii) that delegated responsibility for monitoring Strategic Risk 2, Business Resilience, should sit with the Audit Committee.

Members also agreed that a member of the Audit Committee should seek to attend meetings of the Finance, Capital and Resources Committee to enhance links between the committees.

(*Following the meeting, Gary Bowdler agreed to take on this function.)*

11.2 – Etc. Strategic Risk Register 2024-25

The 2024-25 Etc. Strategic Risk Register had been circulated. The Chief Financial Officer highlighted that updates to risk scores were pending, following the addition of risk appetite.

Members **noted** the Strategic Risk Register update and recommended that the FE Corporation agree the process and procedures used in developing the Strategic Risk Register. Formal approval of the Strategic Risk Register would take place at a future meeting following updating. Members recognised the significant progress achieved, including increasing ownership of risk registers by managers at all levels across the group.

A24/48 Agenda Item 12 – Audit Committee Performance

The Group Director of Governance presented her circulated report outlining performance of the Audit Committee in 2023-24, including against its terms of reference. Proposed minor changes to the terms of reference and the cycle of business for 2024-25 were also outlined.

Members:

i) **agreed** that the committee had met its terms of reference and had performed effectively in 2023-24;
ii) **agreed** to recommend to the FE Corporation that the name of the committee be changed to Audit and Risk Committee and that the proposed minor amendments to the terms of reference should be accepted;
iii) **agreed** deep dive and shallow dive topics for future meetings as follows:
    - Estates – if you had £2m where would you spend it? (November 2024) *(subsequently deferred at request of Chair)*
    - Digital / cyber (March 2025) (scope of presentation to be discussed with JR)
    - Sustainability (June 2025)
    - Safeguarding (October 2025)
    - Equality, Diversity and Inclusion (EDI) (timing to be confirmed)

A24/49 Agenda Item 13 – Internal Audit Strategy

The proposed internal audit plan for 2024-25 had been circulated. The Chair clarified that representatives of Etc. and TIAA had met in August 2024 to discuss the plan. Members were pleased to note front-loading of planned audit dates, as well as inclusion of contingency days. It was reported that implementation of the new finance system had been delayed due to system issues with the supplier so the audit review for this area was not yet scheduled and would be dependent on internal progress. In response to a query, it was clarified that implementation of audit recommendations, including those identified in the GDPR audit, would be reviewed as part of the follow up review towards the year end.

Governors **agreed** to recommend the proposed internal audit plan for 2024-25 to the FE Corporation for approval.

A24/50 Agenda Item 14 – Fraud and regularity update

A report had been circulated on behalf of the Group Director of Governance presenting a Conflicts of Interest Policy. This reflected a requirement in the College Financial Handbook, effective from 1 October 2024.

Members **agreed** to recommend approval of the Conflicts of Interest Policy to the FE Corporation

The Chief Financial Officer confirmed that there had been no fraud and regularity issues and this verbal update was **noted** by members.

A24/51 Agenda Item 15 – Any other business

An additional item of business (Chief Executive's Update) had been considered earlier in the meeting. There were no further items of additional business to discuss.

A24/52 Agenda Item 16 – 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 items 12 and 14, supporting documents were all deemed confidential for reasons of commerciality.

A24/53 Agenda Item 17 – Date, time and venue of next meeting

The next meeting would take place on Thursday 28 November 2024 at 5.30 pm in SRC301, Stockton Riverside College, as previously agreed.

A24/54 Agenda Item 18 – Meeting Effectiveness and Key Themes

The following comments were made about the effectiveness of the meeting:

- High quality debate, issues brought to life, considered real issues and good evidence provided
- Helpful to look at grouping of items / agenda order and to ensure papers were taken as read / go straight to questions
- Meeting felt punchy, good momentum was maintained
- Good level of support and challenge

The following key themes/issues were identified to highlight to the Corporation:

- Positive feedback on IT arrangements and cyber security across the group
- Good progress achieved in implementation of 4Risk and heightened awareness of risk management across Etc
- Deep dive on apprenticeships – good overview that supported governors to understand complexity and context of apprenticeships
- Helpful to have visibility across the work of the group and receive feedback from other committees
  (It was **agreed** that the key themes arising from each committee should be shared with Audit co-opted members, Gary Bowdler and JR)

A24/55 Agenda Item 19 – Closing discussion

This item was not considered at this meeting.

Approved at a meeting held on 28 November 2024