

## Audit Committee Minutes

Meeting held on Thursday 30<sup>th</sup> March 2023 at 5.30 pm, SRC301

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

*Apologies:* No apologies for absence from committee members

*In attendance:* Rosalind Armstrong (AuditOne), Claire Leece (Audit Partner, RSM)

*Officials:* Phil Hastie (Chief Operating Officer), Karen Humphreys (Interim Director of Business Engagement, for Items 2 and 3), Michelle Stephenson (Interim Group Head of Finance) and Sarah Thompson (Clerk to the Corporation)

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### **A23/1      Agenda Item 1 – CONFIDENTIAL ITEM - Standing invitation to auditors to speak with committee members**

The Chair welcomed attendees to the meeting.

Claire Leece, Audit Partner RSM, confirmed that the external audit of the 2021-22 financial statements had been signed off ahead of the deadline of 31 December and no active work had been undertaken since then, in line with the external audit cycle.

Rosalind Armstrong, Audit Manager AuditOne, reported that there were no concerns to bring to the attention of members. Etc. staff were continuing to co-operate well during audits. The audit plan was slightly behind schedule and there had been some delays with correspondence due to absence related to illness of staff in both AuditOne and Etc. However, there were no concerns in relation to delivery of the audit plan.

*Phil Hastie, Chief Operating Officer, Karen Humphreys, Interim Director of Business Engagement, and Michelle Stephenson, Interim Group Head of Finance, joined the meeting.*

### **A23/2      Agenda Item 2 – Welcome, Apologies for Absence, Declarations of Interest, Notification of Items of Other Business**

There were no apologies for absence from committee members and no declarations of interest in items on the agenda. Members noted that the Chief Executive, the Chief Financial Officer and the Group Director HR and People Development were unable to attend the meeting. One additional item of business had been requested for consideration under Item 11; a letter received from the Education and Skills Funding Agency in relation to the college's financial health grade and review of the financial statements.

**Agenda Item 3 – Minutes of previous meetings**

The minutes of the Audit Committee meeting held on 24 November 2022, were **agreed** as an accurate record.

Members **noted** updates against actions agreed at previous meetings and discussed the following actions in detail:

**Director of Business Engagement to attend future meeting**

Members had previously discussed issues identified in internal and external audits relating to compliance with apprenticeship funding requirements. In line with a request from members, Karen Humphreys, Interim Director of Business Engagement, had been invited to attend this meeting to provide reassurance in relation to progress against recommendations. The Chief Operating Officer reported that the Interim Director of Business Engagement had been instrumental in ensuring effective and timely apprenticeship recruitment, working closely with key stakeholders, including departments, to effect improvements. The Interim Director of Business Engagement reported that the business development team was now at full strength, and making best use of employer networks to support teams across Etc. The decline in new apprenticeship starts had been arrested and was beginning to improve, and processes and systems had been streamlined to support engagement and compliance by staff. Significant work had also been undertaken to improve quality; impact had taken longer but each department now 'owned' their apprenticeship data and staff were more confident using this to understand retention and achievement issues.

[REDACTED]

A member queried how Etc. made contact with employers new to the Tees Valley area. The Interim Director of Business Engagement confirmed that Etc. was linked into the Tees Valley Combined Authority, North East England Chamber of Commerce and other organisations in order to receive this information.

In response to a query, the Interim Director of Business Engagement confirmed that there was confidence that apprenticeship recruitment targets would be achieved. Pipeline data was available, staff understood targets and systems were more focussed. The Chief Operating Officer reported that the increased transparency of discussions between curriculum departments and the Business Development Unit was driving a more comprehensive and collegiate approach. The Interim Director of Business Engagement also highlighted that support for learners with additional learning needs, including exam concessions and support for English and maths, was now seamless.

In response to a query relating to T Levels, it was confirmed that responsibility for T Levels was within curriculum departments but the Business Development Unit supported curriculum teams to identify placements and supported work experience coordinators. Organisation of 45 day work placements during the programme was set as part of curriculum design and curriculum teams would need to take account of employer feedback when designing courses. The Interim Director of Business Engagement reported no specific conflict between delivery of T Levels and apprenticeships.

Members were pleased to note positive progress in relation to apprenticeship provision and thanked the Interim Director of Business Engagement for her update.

*The Interim Director of Business Engagement left the meeting.*

### **Staff vacancy rates**

Members noted that the current staff vacancy rate was reported at [REDACTED] 2% and requested that the Group Director of HR and People Development provide additional information in relation to the impact of this vacancy rate on the organisation, i.e. whether this was a significant challenge, number of vacancies, frequency of recruitment exercises.

## **A23/4      Agenda Item 4 - Audit Plan Summary 2022-23**

An updated audit plan summary had been circulated with the meeting papers. The Chief Operating Officer highlighted a number of proposed changes:

- Change of timing for Business Continuity internal audit review from January/February to May 2023 and increase in number of audit days, from four to five; this increase was intended to allow scenario testing
- Defer audit review of assets and inventory to the 2023-24 academic year; this was to allow more time for the new Head of Estates to ensure appropriate processes were in place. The Chief Operating Officer reassured members that robust systems were in place for IT asset management [REDACTED].
- Increase in audit days allocated for subcontracting review from three to four; the rationale for this was that the Education and Skills Funding Agency and Tees Valley Combined Authority (TVCA) funding requirements relating to subcontracting had more significant differences in the current year.

The AuditOne Audit Manager also highlighted that Etc. had asked AuditOne to undertake an audit of the Strategic Development Fund (SDF) VAT claim, a requirement of the SDF funding agreement. This audit had been budgeted at two days and was scheduled to take place in April 2023.

A member queried whether estates management was a specific risk for the group, noting turnover within the Head of Estates role. The Chief Operating Officer clarified that the current Head of Estates had been in post since May 2022; he had succeeded an interim Head of Estates, who had replaced a longer-serving permanent Head of Estates. There were no concerns about this role. The Group Head of IT role was currently held by an interim manager and recruitment to this role was difficult. In response to a query relating to the potential to contract out IT services, the Chief Operating Officer clarified that the group had experienced a lack of responsiveness, issues with system access and higher costs when previously using an outsourced model. Members asked whether postponing the audit review of assets and inventory could give rise to additional risks. The Chief Operating Officer clarified that no concerns had been raised regarding missing or lost assets.

A member queried whether Etc. could influence the TVCA to ensure their funding requirements were more consistent with the Education and Skills Funding Agency. The AuditOne Audit Manager clarified that requirements could become more similar in the future; there was often a lag in devolved authorities updating requirements to follow those of central funding authorities.

Members **noted** progress as detailed on the Audit Plan Summary 2022-23 and **agreed** that:

- i) four days of the contingency allocation should be utilised (two days for the SDF VAT claim audit and increase of one day each for the apprenticeships and business continuity audits);
- ii) the audit review of assets and inventory should be deferred to the 2023/24 academic year.

#### **A23/5      Agenda Item 5 – Outstanding Actions Status Report**

The Chief Financial Officer had provided a report confirming completion of all recommendations arising from internal and external audit reviews. Members noted that a majority of actions arising from the external audit were allocated to the Group Head of Apprenticeships and queried the level of confidence that all actions were complete. The Chief Operating Officer confirmed that he was confident that significant progress had been achieved and more rigorous and robust systems and processes were in place, although some refinement was still needed; in addition, historic records had not been checked due to capacity. [REDACTED] No material issues had been identified in the 2021-22 year end audit.

The Chief Operating Officer clarified that the new Education and Skills Funding Agency (ESFA) audit of apprenticeships was based on a sample of ten learners. ESFA had requested records including apprenticeship agreements, contracts of employment, off the job training hours, and accreditation of prior learning. Etc. had been unable to identify evidence for two learners. As this was a new process, it was not yet known what remedial action the Education and Skills Funding Agency would request.

Members **noted** the status of actions from internal and external audits and the update on actions taken.

#### **A23/6      Agenda Item 6 – Internal Audit Reports**

The AuditOne Audit Manager presented the final reports for the following internal audits:

##### **Capital Planning and Estates**

This audit had focussed on effectiveness of monitoring arrangements for capital projects, specifically with regard to the Clean Energy Education Hub project at Redcar and Cleveland College. The audit opinion arising from this review was 'substantial', with auditors finding a strong reporting and monitoring framework was in place. Three low priority recommendations had been raised; one related to the provision of more detailed short term cashflow forecasts and a sensitivity forecast; the remaining two recommendations related to clearer reporting of changes to risk profile. In response to queries, it was clarified that the recommendations around reporting had been actioned. The Chief Operating Officer and the AuditOne Audit Manager confirmed that processes and templates were well embedded so there was confidence that reporting processes would not change in the event of staffing changes.

## **Cyber Resilience**

The audit opinion following a review of cyber resilience was for 'reasonable' assurance (amber rating) with a total of ten recommendations, eight of medium priority and two of low priority. [REDACTED] Target implementation dates had been set as 30 April for four recommendations and 31 August for the remaining six. The Chief Operating Officer confirmed that he had been reassured of good progress against actions and the Interim Group Head of IT was making use of the recommendations to facilitate cultural change within the IT team. In response to a query, the Chief Operating Officer confirmed that there were no concerns around resourcing within the IT team. Most recommendations related to policy or a changed approach to system management.

Members asked whether further cybersecurity audits were or should be planned. The Chief Operating Officer confirmed that cybersecurity was reviewed at least once annually as part of the internal audit plan and external testing was also undertaken as part of the group's accreditation against CyberEssentials plus. He also highlighted a need to progress more quickly with the roll out of Multi Factor Authentication, initially to staff and then subsequently to students, including addressing technical infrastructure issues, for example, the need for a second device. Therefore, the intention was to provide time for the IT Team to focus on this and increase audit capacity in the next academic year. In response to a query relating to cybersecurity requirements for new college buildings, the Chief Operating Officer confirmed that Etc. would install appropriate networks and switches as part of processes for commissioning the new buildings.

Members recognised that the recommendations were appropriate and were pleased to note that plans were in place to address these.

## **Staff Recruitment and Retention**

No assurance level had been awarded for the advisory review of staff recruitment and retention processes. The review had taken into account strategies used in other colleges and the Etc. Great Place to Work strategy and had found that the college was proactive and innovative in its approaches. A small number of minor recommendations had been identified. Members commented that the report was detailed and comprehensive and were pleased to note the positive feedback.

Members **noted** the internal audit reports for Capital Planning and Estates, Cyber Resilience and Staff Recruitment and Retention.

Proposals to defer the planned audit of Assets and Inventory to the 2023-24 academic year and increase the audit days allocated for reviews of Subcontracting and Business Continuity by one in each case had been discussed under Agenda Item 5.

## **A23/7      Agenda Item 7 – ESFA Audit of Apprenticeship Compliance**

A report prepared by the Chief Operating Officer providing information regarding an upcoming audit of apprenticeship compliance had been circulated. No feedback from the audit had been received to date.

The report was **noted**.

## **A23/8      Agenda Item 8 – Risk Management**

### **8.1 – Risk Register**

The Chief Financial Officer had provided an updated 2022-23 Strategic Risk Register. Members noted an increase in the risk rating for 'Austerity 2.0', recognising that staff pay demands could potentially become more difficult. A member queried how the group communicated concerns to the Department for Education and the Chief Operating Officer highlighted that this was usually via the Association of Colleges (AoC); Etc. was actively engaged in AoC campaigns and becoming more proactive in highlighting issues, for example, engaging with MPs. A letter had recently been sent to the Secretary of State in relation to defunding of qualifications and sector confidence. A member queried college action to collaborate with other local colleges and how this could be measured, highlighting the positive impact of collaboration on local communities. The Chief Operating Officer reported that this was difficult to evidence but discussions were taking place with stakeholders, for example, via FE+.

[REDACTED]

Members noted the reduction in risk rating for 'pandemic' from medium to low and queried whether the group had captured learning and good practice. The Chief Operating Officer confirmed that this was set out in a range of documents, including the Emergency Plan.

Members also noted the reduction in risk score for T Levels from medium to low and queried whether this risk rating was appropriate in light of the significant increase from two T Levels in the current year. The Chief Operating Officer commented that T Level provision had been de-risked, for example, via reducing anticipated funding allocations to reflect expected recruitment. It was requested that confirmation be provided of the number of T Levels to run in 2023-24.

Members noted that, in some cases, risks were rated green, although risk appetite was set as amber. It was suggested that Audit Committee could explore further whether the level of investment in terms of resource and funding was appropriate in light of this.

A member queried whether diversity and inclusivity was included as a risk. The Chief Operating Officer clarified that an annual equality and diversity report was provided to the FE Corporation and diversity data relating to staff was also regularly reported to the Finance and Employment Committee. Equality and diversity was not currently regarded as a significant strategic risk but would appear on the strategic risk register if this position changed.

Members suggested that it could be helpful to reduce the number of strategic risks to make the risk register a more manageable document. The Chief Operating Officer highlighted that the

Etc. had invested in new risk management software which would assist with refining and reducing risks and support better coordination across individual senior management team members responsibilities.

The external auditor highlighted that the reclassification of colleges could make it more difficult for the group to provide a letter of support with regard to any subsidiary, noting a letter of support had been required for Tees Valley Catering in 2021-22. The Chief Operating Officer confirmed that the Tees Valley Catering Board and Etc.'s Finance and Employment Committee had recommended the transfer of TVC activity to Etc. and a strategy was in place to complete this by year end. However, this risk would need to be considered in the event that any new subsidiary was established.

## **8.2 – College Reclassification**

A report from the Chief Executive summarising risks associated with college reclassification into the Public Sector had been circulated. It was noted that Etc. was generally positioned well and the key risk related to raising funding for capital projects. The Chief Operating Officer highlighted that the reclassification decision was resulting in additional bureaucracy, for example, colleges had recently been asked to complete a return on implementation of 'Managing Public Money'. Access to cash could be more difficult, for example, government would expect a lower level of cash days before providing access to grant funding or loans. Members discussed the potential for a change of finance year end date to align with government accounts and it was noted that a change of year end had not been implemented in the academy sector.

## **8.3 – 4Risk**

Members were reminded that Etc. had purchased 4Risk, risk management software, to support with improving and streamlining risk management processes. 4Risk were seeking to format the current strategic risk register into the new system and commence a pilot phase for the new system. A further progress update would be provided to the next meeting.

Members **noted** the progress of risk monitoring for 2022-23 for the Education Training Collective.

## **A23/9 Agenda Item 9 – Fraud and Regularity Update**

The Chief Financial Officer had provided a report providing details of two instances of fraudulent activity as a result of external 'scam' emails received into the group. [REDACTED] In both cases, the issues related to human error. Staff training had been put in place and an additional process had also been implemented to indicate where e-mails were externally originated. [REDACTED]

Members queried how staff training was validated and the Interim Group Finance Manager clarified that the full Finance Team had undertaken scenario training and this had been further reiterated at a team meeting. The Chief Operating Officer reported that the IT Team had planned an internal phishing exercise across the group in the summer term, and additional interventions would be implemented where needed. The group already had strong junk and

spam e-mail filters in place, which meant few spam e-mails reached individual staff members' inboxes. Governors shared experiences from their own roles, including monthly cybertraining questions and phishing tests, and requested sight of outcomes of the phishing test.

There were no other regularity issues to report.

Members **noted** the update.

*Claire Leece and Rosalind Armstrong left the meeting.*

#### **A23/10      Agenda Item 10 – Audit tendering**

A report had been circulated reminding members that the Etc. group was undertaking a tender exercise for internal and external audit services. Audit Committee members' comments and suggestions had been taken into account in the final tender documents, which were issued on 28 February 2023.

[REDACTED] RSM, had decided not to re-tender as the current Audit Partner, Claire Leece, would be unable to serve as Etc. Audit Partner for the full duration of the contract having exceeded the maximum of ten years. However, RSM were willing to extend the external audit contract for one year, to cover the audit of the 2022-23 financial statements. In response to queries, the Chief Operating Officer clarified that there had been a similar picture in other local colleges and many large audit firms were leaving the sector due to high levels of uncertainty.

It was **agreed** that:

- i) clarification panel meetings should be arranged with the [REDACTED] audit firms that had provided submissions;
- ii) presentation topics and questions for the clarification meetings would be agreed via e-mail;
- iii) the Group Procurement Manager should contact companies that had been approached but not provided a submission to identify any specific reason for this and any opportunity to increase the number of submissions.

#### **A23/11      Agenda Item 11 – Any other business**

The Clerk advised members that the financial health letter issued by the Education and Skills Funding Agency (ESFA) had been received the previous day. This confirmed Etc.'s financial health as 'good'. The letter noted financial control issues raised in year end documentation, specifically that auditors had reported three red-rated risk recommendations in relation to ESFA income testing. However, the ESFA letter confirmed that the ESFA noted that the college had taken appropriate steps to address these issues and no further information was required at present.

The update was **noted**.



**A23/12      Agenda Item 12 – Approval of Documents for Public Inspection**

It was **agreed** that the agenda and approved minutes would be made available for public inspection. With the exception of the papers for agenda item 10, supporting documents were all deemed confidential for reasons of commerciality.

**A23/13      Agenda Item 13 – Dates, times and venues of future meetings**

Special Audit Committee meeting – Thursday 11 May 2023, following audit clarification panel meetings (*subsequently rescheduled to Tuesday 9 May, 5.15 pm, SRC 301*)

Summer term Audit Committee meeting – Thursday 8 June 2023, 5.30 pm, SRC 301 (*subsequently rescheduled to Tuesday 6 June, 5.30 pm, SRC 301*)

**A23/14      Agenda Item 14 – Meeting Effectiveness and Key Themes**

Members commented that the meeting had been open and transparent, controls were generally working effectively; there was a good relationship between the college and auditors. The meeting had run to time, and it had been helpful to receive assurance from the Interim Head of Business Engagement in relation to action on apprenticeships.

An officer commented that it was reassuring to note that robust questioning took place by governors.

The following key themes were identified:

- Attendance by Interim Business Development Manager provided reassurance that a proactive approach was being taken to address apprenticeships issues and improve business engagement activity; ESFA Apprenticeship compliance audit in March / April 2023 would test progress
- ‘Reasonable’ audit opinion awarded in Cyber Resilience audit, with eight medium priority recommendations; Audit Committee was reassured that action was being taken to address identified issues within reasonable timescales and cybersecurity audits were planned at least annually
- Audit outcome in internal audit review of Capital Planning was ‘substantial’ and a positive audit outcome was also achieved in the advisory review of Staff Recruitment and Retention.
- Review of Strategic Risk Register identified staffing and funding as key risks; risks of college reclassification also considered and access to funding / borrowing to support capital projects identified as the primary impact
- Two fraud events (perpetrated by external parties) were reported to the committee – there was no financial or other detriment to the group; appropriate training put in place and other pre-emptive actions taken to minimise risk of future events
- Small number of responses received in audit tender exercise – tenderers to be invited to present to Audit Committee in May

**Approved at a meeting held on 6 June 2023**