

## Audit Committee Minutes

Meeting held on Tuesday 6<sup>th</sup> June 2023 at 5.30 pm, SRC301

- Governors:** Rachel Beeken, Gary Bowdler, Subhash Chaudhary (Chair) and Mark Wilson
- Apologies:** No apologies for absence from committee members
- In attendance:** Rosalind Armstrong (Audit Manager, AuditOne), Claire Leece (Audit Partner, RSM), Rachel Robson (External Reviewer, Stone King, via Teams)
- 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 (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.*

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**A23/21      Agenda Item 1 – CONFIDENTIAL ITEM - Standing invitation to auditors to speak with committee members**

Claire Leece, Audit Partner RSM, confirmed that she had no concerns to raise on behalf of the group's external auditors and that RSM was about to commence audit of the annual accounts. Rosalind Armstrong, Audit Manager AuditOne, reported that dates for some internal audit reviews had had to be revised though delays had not been significant and, in response to a governor's question, confirmed that this had affected two audits, Business Continuity and Follow Up. She added that, once underway, Etc. staff had been fully engaged and well prepared for the audits.

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

**A23/22      Agenda Item 2 – Welcome, Apologies for Absence, Declarations of Interest, Notification of Items of Other Business**

The Chair welcomed attendees to the meeting and, in particular, co-opted committee member, Gary Bowdler, attending his first meeting and Rachel Robson, External Board Reviewer, Stone King, observing the meeting on Teams. A round of brief introductions then took place.

There were no apologies for absence from committee members. Noting that Gary Bowdler was employed as Finance Director at Venator, Rachel Beeken declared that Venator was a client of her employer, PD Ports, and Mark Wilson declared that he carried out contract work for Venator; these were noted but not deemed to represent a conflict of interest. There were no declarations of interest in items on the agenda and no notification of items of other business.

### **A23/23      Agenda Item 3 – Minutes of previous meetings**

The minutes of the Audit Committee meetings held on 30 March 2023 and 9 May 2023, were **agreed** as an accurate record.

The action progress log had been circulated and was **noted**; verbal updates on the following actions were provided:

- The planned phishing exercise would be undertaken manually in the coming weeks, before the end of the summer term, and would be replicated in the autumn term; mandatory staff training would also be put in place. Over the summer, the IT team would be working on email software to automate phishing and the use of Artificial Intelligence (AI) to identify suspect emails. Retesting would then be used to monitor any improvements made. In response to a governor's query about whether the group used external agencies for support, the Chief Operating Officer confirmed that the group used JISC as an external source of information and penetration testing provider.
- The Group Director of HR & People Development confirmed that the staff vacancy rate was currently [REDACTED]; this equated to [REDACTED] vacancies over a variety of roles and these were being closely monitored due to the current staff recruitment climate. A Jobs Fair had been held and a talent pool introduced with 34 expressions of interest registered to date. Information on the staff vacancy rate and expanded HR data, including staff home postcodes, would be added to future HR updates to the Finance and Employment Committee. Sector-wide staff recruitment issues were noted, including the risks associated with better pay levels in the schools and higher education (HE) sectors.

### **A23/24      Agenda Item 4 - Audit Plan Summary 2022-23**

The Chief Financial Officer confirmed that the Business Continuity audit would commence on 14 June and that recent updates to the audit plan would be reported under agenda item 6.

### **A23/25      Agenda Item 5 – Outstanding Actions Status Report**

The Chief Financial Officer reported that there were no concerns with regard to outstanding actions; one action relating to monitoring of Office 365 auditing reports had a revised target date of 31 July 2023, originally 30 April, but status updates had been provided and the delay had been deemed reasonable given planned improvements to Service Desk operations.

A governor asked for further detail on the Office 365 update and any potential impact on cyber resilience; the Chief Operating Officer explained that the action related to Service Desk tracking and monitoring reporting and logging actions taken. The new target implementation date would tie in with scheduled IT works and major capital works at Stockton Riverside College (SRC) over the summer; it was confirmed that the Group Head of IT, the manager responsible, was confident that the audit recommendation would be in place by the end of July.

A governor asked whether the Group Head of IT was confident of achieving all the actions assigned to him and due for implementation by the end of August; the Chief Operating Officer confirmed that no issues had been flagged and that the deadlines tied in with the summer IT works programme with many systems scheduled for upgrade over summer periods.

In response to a governors' question, the Chief Financial Officer confirmed that the 14 recommendations arising from RSM's funding review had all been completed as part of the year end audit of financial accounts 2021-22, as reported at the previous Audit Committee meeting.

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

## **A23/26      Agenda Item 6 – Internal Audit Reports**

The Audit Manager AuditOne confirmed that there were no final audit reports to present due to the timing coinciding with a pinch point in their year; however, substantial background work was taking place and verbal updates on the following internal audits were provided:

### Subcontracting

The fieldwork had taken place during May 2023 and was now complete, with the audit in review stages; this audit was required to provide certificates of external assurance on the systems and controls in place to manage subcontractors for the Education and Skills Funding Agency (ESFA) and Tees Valley Combined Authority (TCVA). The draft report was due to be issued and there were no concerns to raise.

### Apprenticeships Follow Up

The fieldwork for this audit had also been completed with AuditOne's initial queries quickly responded to by Etc. staff and mainly resolved, with final queries currently being addressed; an exit meeting was scheduled for the following week. In response to a governor's question about the reason for delays, the AuditOne Audit Manager confirmed that a different audit team had needed to be engaged and that it had also taken some time to resolve queries.

### Follow up of previous recommendations

A meeting scheduled for the following day was expected to cover off the bulk of the evidence that audit recommendations had been implemented; it was expected that the final audit reports for this Follow Up audit and the Apprenticeships Follow Up would be issued at the same time.

### T Levels

There had been some delays due to AuditOne having to reshuffle the audit team; the Etc. Management Information Systems (MIS) manager was currently working through the evidence requested by the audit team.

### Business Continuity

As previously reported, this audit would commence on 14 June 2023.

The AuditOne Audit Manager confirmed that, once these delayed audits had been completed, no other audits remained on the audit plan for the current year; the Chief Financial Officer added that some delays had also been due to Etc. staff availability. Following discussion, it was **agreed** that the remaining final audit reports would be circulated to the committee as they became available.

A governor asked whether everything was in place for the start date for the Business Continuity audit; the Audit Manager AuditOne confirmed that all dates had now been secured and that AuditOne had provided the test scenarios in advance. The Chief Operating Officer added that, although the business continuity plan was considered extensive, the scenario testing would allow Etc. to identify any gaps in the implementation of planned responses. The committee acknowledged the importance of these procedures and that the audit was an integral part of the continuous improvement journey.

A governor asked if there were any consequences as a result of the internal audit plan being behind schedule and the Audit Manager, AuditOne confirmed that this would not delay delivery of AuditOne's annual opinion. The Chief Operating Officer added that the key date for delivery of the Subcontracting opinion certificates to the ESFA and TVCA by 31 July 2023 would be met, as would the Strategic Development Fund (SDF) claim deadline of 30 June.

The Chief Financial Officer informed the committee that it was anticipated that, as a consequence of the reclassification of FE colleges to the public sector, the group would need to make more use of auditors to verify grant claims in future; for example, Taking Teaching Further funding now included a requirement to submit a final, externally audited, certificate. The RSM Audit Partner highlighted the difficulty for auditors to evidence, for example, that staff time spent on a project matched the original bid and the Chief Financial Officer agreed that record keeping with reference to grant applications would be increasingly important. The Chief Operating Officer added that the group had staff experienced in delivering audit trails for ESFA and capital projects and that, where an audit trail was required, this would be set up from the beginning of the project.

Governors **noted** the update.

#### **A23/27      Agenda Item 7 – ESFA Audit of Apprenticeship Compliance**

The Chief Operating Officer highlighted that, as there had been no response to date from the ESFA, he had nothing further to report; governors would be kept updated but there had been no concerns flagged by the ESFA with the small sample of information requested and provided.

Governors **noted** the report.

#### **A23/28      Agenda Item 8 – External Audit Strategy for audit of 2022-23 accounts**

The Audit Partner RSM outlined plans for the external audit of the 2022-23 accounts, with the caveat that, due to the timing of the decision to appoint RSM for the 2022-23 financial statements, discussions had not yet taken place with the Chief Financial Officer; an addendum would be issued should there be any changes agreed. The audit plan included a broad timetable, key risk areas and the proposed approach to the audit; there would be two elements to the audit, the financial statements and a regularity audit opinion on the use of funds and processes. Due to the reclassification of FE colleges to the public sector as of 29 November 2022 and with no notice of the changes and their impact, RSM were still finalising the implications for their propriety work. Planned materiality had not been set out as yet and would be based

on a specific percentage of total expenditure for the year as reported in the draft year-end financial results. Accounts would be presented to the Audit Committee in November 2023 and then to the FE Corporation for approval at their December meeting, with sign off before the Christmas break to allow for submission by the deadline of 31 December 2023.

The Audit Partner RSM highlighted that a middle layer of Non-significant risks (higher) had been added to the material misstatements risks this year, with six risk areas currently identified. These were income recognition, included each year; management override of controls; pension scheme liabilities; going concern; Transactions Unit (TU) grant; and group re-construction. This last risk area would review the accounting treatment of the transfer of NETA Training Trust to Etc.; governors were asked if there were any other risk areas they would wish to see included.

A governor asked about the status of TU grant conditions and the Chief Financial Officer explained that, although the group could request to end monitoring, the end of year cash sweep mechanism remained and an element of the grant might be liable to clawback up to 2025. She added that the risk of clawback was low as the group had been able to evidence that the merger had been successful and the Audit Partner RSM acknowledged that the group complied with the terms of the grant offer letter.

A governor asked about reclassification and the risks to going concern; the Audit Partner RSM explained that this would be more a regularity concern as there was a possibility that some transactions which now required Department for Education (DfE) approval had been missed by colleges immediately following reclassification. A governor asked if there was a definitive list of novel, contentious and repercussive transactions; the Audit Partner RSM explained not as there were many grey areas so auditors would challenge, for example, why a college did not seek DfE approval for anything outside their ordinary course of business. It was acknowledged that the group had transparent relationships and open dialogue with both the DfE and ESFA. The Chief Executive confirmed that the Managing Public Money (MPM) regularity return covering the period from 29 November 2022 to 31 March 2023 had been submitted; one item had been declared but had not been material and the HR team had now put processes in place aligned with MPM requirements. The Chief Financial Officer added that the Financial Regulations were also being reviewed with reference to MPM and would be considered by the Finance and Employment Committee at its meeting on 20 June 2023.

The Audit Partner RSM particularly highlighted the recruitment fraud risks section in RSM's Emerging Issues document and suggested that governors use the document as an information tool and a check that everything relevant had been considered by governors.

Governors **agreed** to recommend adoption of the External Audit Strategy for the 2022-23 accounts to the FE Corporation and **noted** that any subsequent changes required would be issued by RSM as an addendum.

## Agenda Item 9 – Risk Management

A23/29

### 9.1 – Risk Register

The Chief Financial Officer confirmed that key changes to the Strategic Risk Register, following the last Risk Management Group meeting, had been outlined in the covering report. The risk register had been reordered to reflect the movement of net risk scores; failure to deliver NETA relocation as part of the Group Property Strategy had replaced Cyber Security as the risk with the highest net risk score.

A governor asked if any sensitivity analysis had been undertaken and the Chief Operating Officer confirmed that the Capital Development Director had been working through options but a partial solution currently capable of implementation had not yet been identified. The scale of the scheme at SRC had been reduced but total costs remained over £14m and, without a loan from the DfE, local authority or TVCA, the scheme would need to be radically changed. In response to a governor's question about the possible impact of the NETA relocation not going ahead, the Chief Operating Officer explained that it would not be a major issue in the next three to four years but beyond this the Portrack Lane facilities would not be sustainable due to their poor condition. In the interim, all options would continue to be considered but delays could risk losing Thornaby Town Deal funding. NETA also provided strategically important provision; stakeholders supported the development but DfE goalposts and processes had changed and currently there appeared to be no easy solution. Timescales for the decision on the DfE Capital Loan expression of interest were then discussed; the application had been submitted on 30 May and the DfE had already asked for some small changes with a return deadline of 15 June so there was confidence that a decision on this gateway stage could be relatively swift, followed by a more protracted process to provide further detail. It was confirmed that the completion deadline for projects under this DfE Capital Loan Scheme would be March 2025.

A governor asked whether any further mitigating actions needed to be taken in relation to Risk Ref 8: *Poor timely achievement rates in Apprenticeships*. The Chief Operating Officer believed not as, as well as the Apprenticeship Council, apprenticeships were also closely monitored through a Group Improvement Plan and there were mechanisms for committee and Corporation scrutiny. He added that the target achievement rate of 67% was unlikely to be achieved and achievement was forecast to be around 61%. Though this would be above or at least in line with national rates, this was lower than the Etc. target.

A governor noted that the net risk score for Risk Ref 12: *Prevent* had increased slightly and asked if there was evidence for the rationale that this was due to the cost of living crisis. It was believed that this could have resulted from police intelligence or staff understanding of current student behaviours but, given governors' statutory duty for Prevent, it was suggested that the Group Director of Quality, the risk owner, be asked to include some detail in the next Safeguarding report to the FE Corporation.

A governor asked about the increased net risk score for Risk Ref 13 and the Chief Operating Officer explained that this had been as a result of current forecast achievement rates and that, whilst these compared well against the national picture, the risk score reflected a note of

caution. It was also noted that the risk of industrial unrest had increased which reflected the current context.

A governor highlighted Risk Ref 42: *impact of the pandemic on the mental health and resilience of many of our students* and asked whether, given the concerns raised in the student presentation at the last Corporation meeting, the mitigations in place were sufficient. The Chief Operating Officer explained that, although the gross risk score had increased to significant, the Group Director of Quality, the risk owner, had assessed that the controls put in place, including interventions and support, were sufficient to mitigate the issues. However, levels of external support were a concern and the increasingly challenging group finances could have an adverse impact particularly with the increased volume of students referred to Student Services. Governors agreed that the students had been positive about the support they received at Bede and that the mitigations in place were appropriate.

A governor commented on recent Senior Management Team (SMT) appointment processes, with one an internal recruitment exercise and the other going to external advertisement. It was noted that there was flexibility to offer vacancies internally or externally based on the balance between succession planning and internal talent and testing the market; the external recruitment process for the SMT position had confirmed that the internal candidate had the necessary skill set. The Group Director of HR & People Development explained that the selection process involved scenario testing and a panel interview, with senior managers and a representative from HR on all panels to provide the necessary controls. The Clerk added that it was a requirement of the Instrument and Articles of Government that Chief Executive and Senior Post Holder vacancies were advertised externally.

Governors **noted** the progress of risk monitoring for 2022-23.

## **A23/30      9.2 – 4Risk**

The Chief Financial Officer thanked the Governance Support Officer for her assistance and highlighted that, due to personal reasons, the transfer to 4Risk was currently behind schedule. Risks had been imported into the software and work was ongoing with SMT members and RSM to refine information, with the aim of getting the bulk of work done over the summer ready for roll out. It was the intention that a risk register generated from 4Risk would be presented for the autumn term Audit Committee meeting, with the aim to have departmental risk registers in place following Performance Review 3 (PR3).

In response to a governor's suggestion, the Chief Financial Officer agreed to put together an implementation timetable with the assistance of Craig Duff from RSM. It was also agreed to invite RSM to present at the autumn term Audit Committee meeting. It was noted that 4Risk would be a much more dynamic system, with more succinct information than the current Strategic Risk Register spreadsheet, and that governors could be given direct access to the software.

Governors **noted** progress of the migration to 4Risk.

### **A23/31      9.3 – Risk Management Strategy 2023-24**

The Chief Financial Officer confirmed that the proposal was to follow broadly the same risk management process as in previous years given its effectiveness; minor changes primarily related to updating dates and job titles and reflecting the Strategic Objectives for 2023-24 and had been shown using track changes. It was noted that the Risk Register structure chart would be included following conclusion of Business Planning.

Governors **agreed** to recommend approval of the Risk Management Strategy for 2023-24 to the FE Corporation in July 2023.

### **A23/32      Agenda Item 10 – Audit Documentation**

The Clerk highlighted that two key compliance documents, the Post 16 Audit Code of Practice and the College Accounts Direction, had been updated, with key updates outlined in the covering report; many changes related to the reclassification of FE colleges to the public sector and the requirement to comply with MPM. She added that these changes would be considered as part of the year end processes and that governors would also find a further document, The Scope of Work of Audit Committees and Internal Auditors in College Corporations, useful.

Governors **noted** key updates to audit documentation, that there were no areas of concern and that changes would be taken into account as appropriate.

### **A23/33      Agenda Item 11 – Fraud and regularity update**

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

### **A23/34      Agenda Item 12 – Policy updates**

The Chief Financial Officer confirmed that only minor changes to the policies circulated were proposed, mainly with reference to MPM and updated job titles.

A governor asked about staff training and refresher training on the policies; the Chief Financial Officer confirmed that the policies formed part of the staff induction pack and that heads of department received annual refresher training, including on hospitality and gifts. Online training packages were also being explored. The Group Director of HR & People Development added that staff received regular reminders with online information supplemented by face to face refreshers.

Governors **approved** the following group policies:

- i)          Anti Bribery Policy and Procedure
- ii)        Anti Fraud Policy and Procedure
- iii)       Whistleblowing Policy and Procedure

*Rosalind Armstrong and Claire Leece left the meeting*



**A23/35      Agenda Item 13 – Internal Auditor performance**

The Chief Financial Officer confirmed that, overall, AuditOne had provided a good service and that there had been a positive working relationship over the year. Some of the delays experienced had been on the part of Etc. and it was noted that AuditOne had now withdrawn from the education market. A governor commented that this had been the first year delays had been such an issue.

The Chief Financial Officer confirmed that she was looking forward to working with the new internal audit provider; a planning meeting would be held with TIAA over the summer and also attended by the Audit Committee Chair. AuditOne had also offered to provide a handover should TIAA want one though it was felt that, generally, it would be sufficient to provide TIAA with previous audit reports, with a formal handover process more important for external audit.

A governor asked whether the low number of responses to the audit tenders should be added to the strategic risk register; it was felt that this would be more appropriate as the next tender exercise approached in three to five years' time though the performance of the new audit providers could be considered for inclusion, possibly in the Finance departmental risk register. It was noted that TIAA had been appointed as internal auditors from 1 August 2023; RSM would continue as external audit providers to the end of December, with Beever and Struthers appointed from 1 January 2024, giving a long lead in and allowing familiarisation time before their audit of the 2023-24 accounts.

Governors **noted** the performance of the internal auditor in 2022-23.

**A23/36      Agenda Item 14 – Any other business**

There were no items of other business.

**A23/37      Agenda Item 15 – 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 policies approved under agenda item 12, supporting documents were all deemed confidential for reasons of commerciality.

**A23/38      Agenda Item 16 – Dates, times and venues of future meetings**

The following meeting dates for 2023-24 were agreed:

Thursday 26 October 2023, 5.30 pm *This meeting was subsequently moved to Thursday 12 October due to the Chair's availability*

Thursday 30 November 2023, 5.30 pm

Thursday 8 February 2024, 5.30 pm

Thursday 6 June 2024, 5.30 pm

Committee members also agreed that these should all be held at Stockton Riverside College, with an option for remote attendance, if needed.

**Agenda Item 17 – Meeting Effectiveness and Key Themes**

The following comments were noted about the meeting's effectiveness:

- The meeting had felt quite 'punchy' with a lot of material covered
- Attending their first meeting, a governor commented on the usefulness of receiving documents in advance; he felt that, for him, the meeting had been more about absorbing information than anything else but it had felt effective. The information received had been succinct and everything seemed to be on track

The following key themes were identified:

- **Actions** – Action plans for phishing exercises and staff training are being developed; Etc. staff vacancy rate (currently [REDACTED]) and further HR data reporting will be via Finance and Employment Committee
- **Internal audits progress** – Verbal updates were provided on Apprenticeships follow up, Subcontracting, Follow up of previous recommendations, Business Continuity and T Levels. Reports will be circulated to committee members when finalised. There have been no major issues identified in work done to date.
- Confirmation that certificates for Subcontracting assurance would be issued to the Education and Skills Funding Agency (ESFA) and Tees Valley Combined Authority (TVCA) for 31 July deadline and for the Strategic Development Fund claim for 30 June deadline
- **External Audits** – Overview of the external audit strategy for audit of the 2022-23 financial accounts discussed. Slightly higher costs due to increased workload due to impact of Office for National Statistics (ONS) reclassification of colleges and increasing use of auditors to verify future grant claims.
- **Risk Management** - Strategic Risk Register: NETA relocation currently assessed as the group's most significant risk; discussion of Prevent, currently with a slightly increased net risk score. Plan for the rollout of 4risk software is being progressed. Risk management strategy 2023-24 recommended to the FE Corporation for approval

The meeting ended at 7.10 pm

**Approved at a meeting held on 12 October 2023**