

South Staffordshire College



MINUTES OF THE VIRTUAL AUDIT COMMITTEE MEETING HELD ON 16 JUNE 2021 9.30AM to 11.20AM

PRESENT:

Helen Simpson (Chair)	External
Philip Atkins <i>Present following minute 187</i>	External
Andrew Elsby-Smith	External
David Isteed	External
Dipal Patel	External
(Attendance 100%)	

In attendance:

Clare Parkes <i>Withdrew following minute 238</i>	TIAA (Internal Auditor)
Claire Boliver	Chief Executive & Principal (CEP)
John Snow	Deputy Principal - Finance & Resources
Miranda Hughes	Clerk to the Corporation

WELCOME & APOLOGIES FOR ABSENCE

184 Apologies were received from David Hoose (Mazars).

185 On behalf of the Committee, the Chair warmly welcomed the newly appointed governor, Dipal Patel to her first Committee meeting.

186 Confirmation was received that, Colin Horwath, Audit Committee co-opted non-governor, had stepped down from his responsibilities at the College effective from 15 June 2021. On behalf of the Committee, the Chair gave thanks to Colin Horwath for his service to the College.

PRE-MEETING BETWEEN COMMITTEE AND AUDITOR

187 The Committee and internal auditor met without management present to allow the opportunity to raise any issues. No issues were raised with the Committee in private. The progress made with regard to the Internal Audit Plan was also shared (*minute 208-212 also refers*).

DECLARATION OF INTERESTS

188 None.

MINUTES

189 **Resolved** that the minutes of the meeting held on 31 March 2021 be approved as a true and accurate record.

Action Grid

190 The Committee reviewed the Action Grid and noted the six items closed and reports on the four actions still in progress. Of the four actions in progress, governors agreed that three actions were also closed. The rationale for this was agreed. Governors noted that the deadline for the one remaining action was not yet due.

FRAUD, IRREGULARITY, IMPROPRIETY, CYBERSECURITY & WHISTLEBLOWING

Cybersecurity

191 The Committee received a report on cybersecurity from the Deputy Principal. It was confirmed that the College had been subject to increased levels of suspicious activity during 2020-21, in line with the experience of the education sector generally. It was reported that, in the period following the last meeting, the College had been subject to at least one ransomware attack but Distributed Denial of Service (DDoS) attack issues had dropped considerably. Governors were advised that, at the time of the meeting, all attempts have been successfully dealt with by the systems put in place to protect the College network. The following matters were highlighted:

- Work was being undertaken to be in receipt of Cyber Essentials+ by the summer of 2021 followed by ISO27001 standards by the beginning 2022. The Deputy Principal advised that, should the College fulfil this objective, it would be the first college in the country to do so.
- The College had in place cyber security cover at a cost of £2.9k annually, plus Insurance Premium Tax.
- Best practice had been shared across the sector in order to further develop and implement increased measures of protection at the College.

192 A question was raised regarding whether the College would be placed at increased risk of ransomware attacks given that cyber security cover was in place. Confirmation was received that the nature of the cover focused upon data restoration should an attack be successful.

193 The Committee, together with the leadership team gave special thanks to the Director of IT for his work in this area.

Matters for the Attention of the Committee

194 Confirmation was received that there were no matters related to fraud irregularity, impropriety or whistleblowing to be brought to the attention of the Committee.

BUSINESS CONTINUITY PLANS

Business Continuity Plans

195 Further to the previous meeting (*minute 148 refers*) the Business Continuity Plans, which consisted of a critical response plan and a business recovery plan, were received by the Committee for consideration ahead of the July Board meeting. Detail related to the means by which staff would become familiar with the procedures would be shared following approval. The Deputy Principal confirmed that both documents had been reviewed prior to the meeting as part of the IT Business Continuity review, which had been in receipt of substantial assurance from the Internal Auditor (*minute 200-201 refers*).

196 When asked about the plans, the Internal Auditor provided assurance that the documentation exceeded the required expectations.

197 The new governor asked for detail with regard to the how the plans would be tested. It was confirmed that such activity would be undertaken by the College on an annual basis, with CPD days used as a means to test plans and train staff, followed by a period of evaluation thereafter so that improvements could be identified and documentation modified as appropriate. As a consequence of the COVID-19 pandemic, the Deputy Principal advised substantial levels of testing had taken place over the past 12 months and as such the next test date would be scheduled for summer 2022 with findings presented to the Audit Committee for review in the Autumn Term of the 2022-23 academic year.

198 Resolved

1. that the Board be **RECOMMENDED** to approve the Critical Response Plan.
2. that the Board be **RECOMMENDED** to approve the Business Recovery Plan.

INTERNAL AUDIT

Assurance Review of Marketing

199 The report following the assurance review of Marketing was received by the Committee. The Internal Auditor provided confirmation that the review had resulted in an assessment of 'Reasonable Assurance' with one 'important' and two 'routine' recommendations. The leadership team agreed with the recommendations and associated timescales.

ICT Review of Business Continuity & Disaster Recovery

200 The Internal Auditor provided confirmation that the review had resulted in an assessment of 'Substantial Assurance' with two 'routine' recommendations. The leadership team agreed with the recommendations and associated timescales.

201 On behalf of the Committee, the Chair congratulated the leadership team and staff for the work undertaken in this area; advising that the review provided significant assurance to the Committee.

Follow-up on 2019-20 Recommendations

202 The Internal Auditor provided a verbal update regarding review of 2019-20 recommendations which was in the process of being carried out at the time of the meeting. Confirmation was received that full report would be presented at the September meeting of the Committee.

203 The Committee were informed that, from a total of 52 recommendations arising from the internal audit reviews undertaken in 2019-20 (including one recommendation from a review undertaken in 2018-19), 31 had been implemented, 12 had been superseded and one recommendation had been considered but not implemented. In addition, a review of the action undertaken following the Procurement Review in 2020-21 had also taken place.

204 Given that the College had externally commissioned a subsequent funding audit in December 2020, it had been determined that the 11 recommendations from the original Apprenticeships Review undertaken in 2019-20 had been superseded. The remediation plan following the most recent review would continue to be carefully monitored via the Internal Audit Action Grid.

205 The Internal Auditor confirmed that the one recommendation considered but not implemented related to a recommendation set out within the 2018-19 HR Review, which related to the creation of a staff code of conduct document. The Committee were informed that the leadership team had taken the decision not to implement the recommendation due to the wealth of additional supporting documentation put into place to support staff following the appointment of the new Assistant Principal – HR in March 2020.

206 The Chair thanked the Internal Auditor for the update and requested that the actions be dealt with as soon as possible. Further detail regarding the follow up of the Procurement Review was requested, given that the review had resulted in an assessment of Limited Assurance (*minute 59-64 refers*). The Internal Auditor clarified that one of the procurement recommendations was not yet due at the time of the meeting, which related to the Tender Register. Additionally, the Deputy Principal confirmed that additional procurement resource was being sought which would result in the remaining recommendations being addressed. The Internal Auditor endorsed the recruitment of the Procurement Manager job role. It was agreed that recruitment in this area would benefit the College and bring enhanced Value for Money. The Deputy Principal clarified that the tender of external audit services (*minute 232-237 refers*) had been undertaken externally via the Crescent Purchasing Consortium.

207 **Resolved** that an update on the follow up exercise to be provided at the September meeting of the Committee, with particular regard to the Procurement Review.

Audit Strategy and Annual Internal Audit Plan

208 The Internal Auditor presented the draft Internal Audit Plan for 2021-22 through to 2023-24. Particular attention was drawn to the newly updated Rolling Strategic Plan (Annex C) which was subsequently reviewed at length by the Committee.

209 With regard to the reviews related to mitigating controls and strategic control scheduled to be undertaken within 2021-22, the Internal Auditor was asked if the number of days allocated within the Plan were proportionate to the time spent. Confirmation was received that this was the case.

210 It was observed that the financial performance of the College was last reviewed in 2018-19 and as such the Committee discussed whether to instruct a subsequent review in either 2022-23 or 2023-24, with the financial recovery position of the College in mind. Attention was drawn to the scheduled review of treasury management in 2022-23 and financial business planning and stress testing in 2023-24; both of which were closely linked to that of financial performance. The Committee agreed to review the 2022-23 plan with financial performance in mind at the June 2022 meeting of the Audit Committee.

211 The Clerk requested that the follow up review of internal audit recommendations in 2021-22 be scheduled to allow adequate time for a full report to be presented at the June 2022 meeting of the Committee. The Internal Auditor confirmed that 2021-22 scheduling would allow for this.

212 **Resolved** the Board be **RECOMMENDED** to approve the Internal Audit Plan for 2021-22.

213 Confirmation was received that completed audits in June related to cash receipting, controls and banking and HR and safeguarding. The only remaining internal audit to be undertaken for 2020-21 related to the Student Voice. A September meeting of the Committee had been scheduled to review all findings.

Internal Audit Action Grid

214 The Committee received the updated 2020-21 Internal Audit Action Grid, which enabled them to monitor progress with the implementation of audit recommendations. The Clerk reported that, from a total of 100 recommendations, 84 had been completed, leaving 12 actions in progress within the set time period and four actions of which were overdue on original dates. The four overdue recommendations were then closely reviewed and discussed by the Committee with confirmation that further progress updates would be provided at the September meeting.

215 A question was asked relating to the review of Debtors and Budgetary Control Review, specifically related to the timescale by which the College would instruct an external debt collection agency to support debt recovery. Confirmation was received that, following the circulation of Committee papers, a debt collection agency had now been appointed.

216 The progress made in relation to the Procurement Review was raised, whereby the Chair requested a further progress update related to the Contracts Register be provided at the September Committee meeting (*minute 206-207 also refers*).

217 **Resolved** that the Internal Audit Action grid to be amended to reflect the findings of the 2019-20 follow up review exercise.

RISK MANAGEMENT

Corporate Risk Register & Action Plan

218 The Committee robustly reviewed both the Risk Register and Action Plan; where the 20 key business risks facing the College spread across its five strategic objectives, based on financial impact, reputational impact, and impact on learners were discussed along with associated trend analysis and changes to gross, net and residual risk. Further detail was shared with regard to 16-18 applications and anticipated growth, apprenticeships, increased employer engagement, Ofsted inspection, crisis management activity and full cost activities, which included hospitality, commercial activity and events. Confirmation was received that the document had been reviewed by both the Risk Management Group and the Executive Leadership Team in advance of the Committee meeting. No new risks had been added to the Corporate risk register since the previous Audit Committee.

219 With regard to risk C2, the Committee discussed the long-term economic effects of COVID-19 on apprentices and employers. In response, the CEP advised that the College Employer Engagement Strategy had been redeveloped and included a full schedule of employer focus groups, which had commenced in May 2021 along with increased industry exposure for students within the first 6 weeks of enrolment (*minute 240 also refers*). As such, the Chair requested to see progress on the actions detailed within the Risk Register in order to reflect the work undertaken within this area.

220 With regard to risk C9, the Committee received detail related to progress made in achieving the revised Adult Education Budget (AEB) tolerance threshold of 90%. At the time of the meeting, confirmation was received that the College was on target to achieve 84%; which was confirmed to amount to approximately £120k of financial clawback.

221 The Chair observed that, whilst the COVID-19 Risk Register indicated that risk had lessened, the Corporate Risk Register illustrated that risk had worsened. Further information was subsequently requested, to which confirmation was received that whilst the COVID outlook had worsened since the start of the pandemic, particularly with regard to the financial impact related to apprenticeships provision, the overall outlook had begun to see improvement.

222 **Resolved**

1. that updated commentary to be presented related to residual risk be presented at the September meeting of the Committee, with particular regard to Risks C2, C6 and COVID-19.
2. that further information on the financial risk related to AEB clawback to be reported to governors at the July Board meeting.

COVID-19 Risk Register and Action plan

223 The Committee received the COVID-19 Risk-Register and Action Plan, where the 9 key risks facing the College were discussed, along with the progress made. Confirmation was received that the document had been reviewed by both the Risk Management Group and the Executive Leadership Team in advance of the Committee meeting. Confirmation was received that no new risks had been added to the COVID-19 risk register since the previous Audit Committee which, illustrated the increased positivity in relation to the public health emergency, at the time of the meeting.

Covenant Compliance

224 The Committee received an update on potential risk related to covenant compliance. Confirmation was received that, at the time of writing the report, inclusive of £120k potential AEB clawback, the risks to the College covenants were low, given that Yorkshire Bank had committed to not test their covenants for 2020-21, as a result of the new loan facility which would be presented for Board consideration before the end of the academic year. The Deputy Principal advised that there was potential risks related to capital expenditure on the Tamworth Redevelopment Project should grant funding fail to be awarded by Tamworth Borough Council. He went on to state that non-payment was likely to be limited given the VAT element of any capital funds spent.

225 Notwithstanding the fact that Yorkshire Bank would not test covenants for 2020-21, covenant risk related to the Bank was nevertheless discussed by the Committee. The Deputy Principal advised that, whilst the Bank took into account capital repayments, it did not take into account capital asset disposals in its debt servicing arrangements. As such, the debt servicing covenant had been impacted by the fact that the College intended to repay a proportion of its borrowing with the Bank by the end of the academic year and therefore in recognition of this, Yorkshire Bank had committed to not test its covenants for 2020-21.

226 In response to the above, the Chair raised the subject of going concern in respect of 2020-21 financial statements with particular regard to the implications of having not fulfilled covenant requirements with Yorkshire Bank. Confirmation was received that the External Auditor would test all covenants and, for the covenant in question, would want to understand the reasoning behind why it had not been achieved. As the covenant would not be tested for the year 2020-21, for the reasons outlined in under minute 225, no breach (or subsequent cross-breach) would occur and therefore there would be no bearing on going concern.

- 227 **Resolved** that further information be provided at the July Board related to covenant risk with regard to the Yorkshire Bank debt servicing covenant, had the College not intended to repay a proportion of its borrowing.

Fraud Risk Assessment

228 An assessment of fraud risk in the College was presented to the Committee, where it was confirmed that the risks remained at a similar level to the Fraud and Bribery Risk Assessment presented at the November 2020 meeting. Particular attention was drawn to the following:

- Cash handling remained the highest risk and as such had been the subject of an internal audit in June 2021, with the findings reported at the September meeting of the Committee. The Committee were advised that COVID-19 impact had led to increased levels of cashless transactions and as such, risk had reduced in this area when compared to previous assessments.
- Procurement had been identified as a potential risk and had also been subject to a review by the Internal Auditor in 2020-21 which had resulted in an outcome of Limited assurance. Remedial work was being undertaken within this area (*minute 206-207 and 216 also refers*).
- IT systems, data/network security remained at a Medium risk, largely due to the prevailing external conditions within the education sector.

2020-21 POST 16 AUDIT CODE OF PRACTICE & COMMITTEE TERMS OF REFERENCE

229 The Clerk presented a report which summarised a) the key changes following the publication of the 2020-21 Post 16 Audit Code of Practice (ACOP) and b) the revised Audit Committee Terms of Reference (ToR), which had been subsequently updated to reflect the 2020-21 document, for recommendation to the Board as part of the annual review of the College Standing Orders at the beginning of the 2021-22 academic year. Upon receipt of Board approval, the updated Standing Orders would be published on the College website and within the Governors' Area of Microsoft Teams. Attention was drawn to the following areas:

- The ESFA's subcontracting standard had been updated, which included an introduction of a requirement for independent assurance reports on subcontracting arrangements to be considered by audit committees. In response, the Clerk reported that, in addition to the updated ToR, from 2021-22 onwards, a subcontracting item will be built into the first Audit Committee meeting each year, summarising previous year activity as well as looking at forward activity in the current year to determine if the College was likely to meet the aggregate value of £100k and therefore determine whether independent assurance would need to be obtained. Findings would then be presented at Board thereafter. Confirmation was received that the College fell below the £100k threshold for the academic year 2020-21.
- The ACOP had been expanded to include further details on the characteristics of an effective audit committee and the abilities of its members, along with a requirement for audit committees to consider the development and training available to its members. As such, the ToR had been updated to reflect this change and confirmation received that, in addition to the sector updates provided by the internal and external audit service and the Clerk, the Board had resolved to purchase a programme licence which enable governors to benefit from learning and development materials offered by the Education & Training Foundation Governance Development Programme, run by Foundation Online Learning.
- Corporations were required to have a policy in place for regular re-tendering of external auditors, which should happen at least every five years and as such, the Clerk reported that the Financial Regulations would be expanded to reflect this, which would in turn be considered by the Board in the autumn term of 2021-22.
- Confirmation was received that external auditors would present findings annually to the Board.
- Clarification that, whilst the ESFA continued to provide both corporations and their auditors with a statement of grant payments made in respect of the funding year, the statement did not constitute assurance over the funds earned by colleges. The Clerk advised that the ESFA would engage with college corporations and sector auditors to work through the implications of this given that the change would have an impact on the external audit strategy for student number income. In respect of the 2020-21 academic year, the Clerk reminded governors that an externally commissioned funding audit was undertaken at the College in the months of December 2020 and January 2021.

230 **Resolved** that the Board be **RECOMMENDED** to approve the updated Audit Committee Terms of Reference.

231 On behalf of the Committee, the Chair thanked the Clerk for the valuable updates provided and the associated follow up work undertaken.

APPOINTMENT OF THE FINANCIAL STATEMENTS AUDITOR 2020-21

232 A report was received which detailed the Committee's careful and lengthy decision-making process related to the appointment of the College external auditor for 2020-21 onwards following a retendering exercise that had been undertaken during the academic year.

233 Confirmation was received that the College used the Crescent Purchasing Consortium's mini-tender lot which included a total of ten firms, of which four firms subsequently made a tender return. The Chair stated that whilst it would have been advantageous for the College to have had more firms submit a return, she acknowledged that the reasoning for this was largely as a consequence of the procurement framework adopted. In response, the Deputy Principal advised the Committee that, of the original lot, three larger firms were invited to tender but had subsequently declined the offer, which, in his opinion, was a reflection of a number of significant changes to both the audit and FE landscape at the time of the meeting.

234 Presentations were held on 9 June 2021. The panel of Audit Committee members considered the tender information and the three presentations against the tender criteria, which was:

- Price (measured by tender cost)
- Sector experience (measured by company/staff experience of FE sector)

235 Following a series of robust discussions prior to and during the meeting and following careful consideration, the Audit Committee panel resolved to recommend Mazars as the successful firm. It was agreed that a three-year contract would be awarded in preference to the usual five-year contract. Governors also noted that, within this period, the Committee must consider the re-appointment of the firm on an annual basis. The rationale for the decision was based upon the following:

- The firm remained as the second largest FE auditor provider in the sector and had invested in their FE presence whereas other larger firms had been withdrawing from the sector.
- The firm:
 - were in receipt of a specialised Funding Audit Team, one of only four firms in the sector that were in receipt of this resource; and
 - sat on the ESFA's Insolvency Panel.
- Despite the firm being the most expensive option, they offered the best value on a funding audit review.
- Given the risks to the sector at the time of the meeting, with the advent of the White Paper, and the risks to the College regarding financial recovery and a potential major capital build, it was agreed that experience would take preference over costs on the basis that, once additional funding audit costs were added in, the variance in costs was not significant.

236 The Chair gave thanks to the Committee members who participated in the Panel and for taking considerable time out of their schedules to reach a decision.

237 **Resolved** that the Board be **RECOMMENDED** to appoint Mazars as External Auditor for a three-year term, noting that the Audit Committee would consider the reappointment of the firm on an annual basis.

MEETING BETWEEN THE COMMITTEE & MANAGEMENT

238 The Committee and management met without the auditor present to allow the opportunity to raise any issues. There were no issues raised with the Committee in private.

ANY OTHER BUSINESS

Cybersecurity

239 Given how important cybersecurity was for the sector at the time of the meeting, a governor enquired into whether there was commercial value in the College publicly showcasing their excellence within this area. In response, the Deputy Principal advised that, at the time of the meeting, the Director of IT was exploring future collaboration activities with a number of colleges within the region. It was intended that the College to be recognised as a leading college within this arena to enable best practice to be shared.

Employer Engagement, Apprenticeships & Volunteering Opportunities

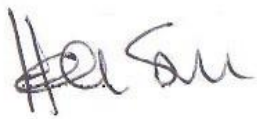
240 The Committee discussed the importance of employer engagement, apprenticeships opportunities, the enhanced advertising of volunteering programmes and the College's comprehensive digital offer for 2021-22 and beyond.

Clerk to the Corporation

241 The Chair, on behalf of the Committee, thanked Miranda Hughes for her support and significant contribution to the work of the Audit Committee during her time in post as Clerk to the Corporation. Members wished her well for the future.

DATE OF NEXT MEETING

9.30am, Wednesday 16 September 2021.



Chair

16 Sept 2021

Date