

THE CORPORATION OF EAST SURREY COLLEGE

AUDIT COMMITTEE

MEETING HELD ON THURSDAY 3 DECEMBER 2020, VIA MICROSOFT TEAMS

Meeting commenced: 18.10

Meeting ended: 20.30

Present

Alex Hayman	Independent Member	Chair
Peter Papanastasiou	Independent Member	
Ganesh Kumar	Independent Member	
James Marshall	External Co-opted Member	

Apologies for absence

Rosemary French	Independent Member
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In attendance

Jayne Dickinson	Chief Executive (College Group) Principal ESC
Jyoti Baker	Chief Operating Officer
Kevin Standish	Principal JRC Quality Lead (College Group)
Katharine Patel	External Audit Service: Buzzacott LLP

Clerk to the Committee

Sue Glover	Director of Governance
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AC.28.20 Declaration of Interests

Members and officers were reminded of the need to declare any personal or financial interest in any item to be considered during the meeting.

AC.29.20 Apologies for absence

Apologies for absence were received from

Rosemary French	- business commitments
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Agreed

The Audit Committee agreed to receive the apologies for absence.

AC.30.20 Notification of any other business

The Chair advised that a matter had been raised with regard to volume of papers and would be discussed under any other business at the end of the meeting.

AC.31.20 Unconfirmed minutes of the meeting of the Audit Committee held on 11 June 2020

The minutes of the meeting were approved and signed as a correct record.

AC.32.20 Matters arising and action points from the minutes of the previous meeting

The Chief Operating Officer advised that, as agreed at the previous meeting, further consideration was given to the Best Value Policy, which had been approved on the basis that further thought would be given and amendments presented to this meeting. It was felt that no further amendments are required at this time and the policy would be reviewed again under the normal cycle of policy reviews.

Members noted that all other Action Points arising from the meeting have been addressed to the satisfaction of the Committee and there were no other matters arising from the meeting.

AC.33.20 Post-16 Audit Code of Practice for 2019/20

The Director of Governance presented for information the Post-16 Audit Code of Practice (the Code) for 2019/20

Members were advised that the Code sets out a common standard for the provision of assurance in relation to funding of post-16 providers, setting out:

- The overarching assurance requirements for post-16 providers
- The specific responsibilities within the assurance framework for sixth-form and further education corporations, and their external auditors/reporting accountants
- The requirements for independent training providers

The Committee was reminded that the Code is normally updated in March each year, but for 2019/20 this was not published by the ESFA until the end of July when the Code was circulated to members highlighting the changes made. It was noted that there were no substantial changes in this version and it was agreed that there are no changes required to be made to the Committee's Terms of Reference, which had been reviewed at the June meeting.

Agreed

The Audit Committee agreed to receive and note the document

AC.34.20 Internal Audit

The Chief Operating Officer presented a report detailing the outcome of the internal audits recently undertaken at the College.

Subcontracting – Assurance Opinion: Strong *'governance, risk management and control arrangements provide strong assurance that the material risks reviewed are managed effectively'*

One low risk recommendation made to improve the performance of the system of internal controls.

The report was circulated to the Committee in the summer and is presented for completeness.

Key Financial Controls – Assurance Opinion: Strong *'governance, risk management and control arrangements provide strong assurance that the material risks reviewed are managed effectively'*

One low risk recommendation made to improve the performance of the system of internal controls.

Risk Management and Governance – Assurance Opinion: Strong *'governance, risk management and control arrangements provide strong assurance that the material risks reviewed are managed effectively'*

No recommendations have been raised as a result of this review.

Coast to Capital (C2C) audit

C2C undertook an audit of the College's Capital Project at JRC. Whilst the initial focus of the audit was on both projects, with the Deed of Variation issued for John Ruskin College, the audit focused on the progress and outcomes at JRC. The audit received a green RAG rating – *'success delivery of the project appears highly likely including timeline, cost and quality. There are no outstanding or potential issues at this stage'*.

Cyber Essential

The College has obtained the Cyber Essentials Plus certification, which is a rigorous test of the organisation's cyber security systems where cyber security experts carry out vulnerability tests to ensure the organisation is protected against basic hacking and phishing attacks.

Learner Number Systems Apprenticeships – Assurance Opinion: Reasonable *'governance, risk management and control arrangements provide reasonable assurance that the material risks reviewed are managed effectively. There are some areas where the adequacy or operation of controls needs significant improvement'*

One high, three medium and two low risk recommendations have been made to improve the performance of the system of internal controls.

Peter Papanastasiou joined the meeting

Members reviewed the recommendations raised and the action plan in place to address the issues.

It was noted that

- The high risk recommendation relates to initial assessments, referred to as 'skills scans', noting that these should be held on file for all Apprentices
- Whilst prior skills and knowledge are considered as a standard embedded process at the time of the apprentice sign up, this is treated as IAG by the College and the evidence is not recorded as a 'skills scan'
- It is a requirement of the ESFA to have auditable evidence on file to support these assessments

Members discussed the issues raised and, in response to questions, were advised that

- The College has misinterpreted the requirements of this funding clause and measures have been put in place to immediately deal with the issues raised
- If no action is taken, the impact on the college's reclaim of funding could be significant
- The College has devised an action plan - by 17 December, the 'skills scan' will be completed on the audit sample of 29, which will identify whether there would be any financial impact to be extrapolated on the sample
- The 2020/21 new starts 'skills scans' to be completed by the February half Term
- The continuing learners completed by the end of the Spring term

It was noted that the final report would be issued in time for the Corporation meeting. The management responses were being added to the document to enable the final report to be issued. In addition, it was agreed that an update would be circulated to the Committee once the review of the sample of 29 has been completed, summarising the findings and actions to be taken.

Members were advised that a new Audit Tracker would be prepared with the recommendations and actions from the internal audits and presented to the next meeting of the Committee.

Members asked when the next Health and Safety internal audit is planned and were advised that an Estates audit had been undertaken in the previous cycle and it would be considered as part of the audit plan for the next three-year cycle 2020/21 – 2023/24. The priority of audits was determined by the risk register.

Members agreed that the audits presented a good set of outcomes to give assurance to the Corporation Board that the College has an adequate and effective system of internal control. The internal audits were part of the independent assurance to the Governors, supporting the Governors Report and statements in the Financial Statements.

Resolved

The Audit Committee accepts the following Internal Audit Reports

- Subcontracting
- Key Financial Controls
- Risk Management and Governance
- Learner Number Systems
- Coast to Capital audit
- Cyber Essential plus certification

AC.35.20 Financial Statements Audit and Regularity Audit for 2019/20

The Chief Operating Officer presented a summary of the Financial Statements for 2019/20.

Members were advised that

- The College had made an Operating Surplus (before pensions and financing costs) of £573k, 2018/19 Deficit (£83K)
- The College generated a deficit on continuing operations of (£467k) (2018/19 £399k) including finance and pension costs
- The deficit arises from the actuarial loss arising from LGPS pension liabilities
- The LGPS pension revenue costs have increased by 35% from £680k in 2018/19 to £1,035 in 2019/20
- The total comprehensive (expenditure)/income is (£6,219), (2018/19 £20,624)
- The movement of the outturn between the July 2020 management accounts and the final outturn was reviewed, noting the adjustments made relating to the AEB reconciliation, cyber insurance claim and historic grant releases

AC.36.20 Post-Audit Management Report for ESC for the year ended 31 July 2020

The External Auditor presented its Post-Audit Management Report to the Audit Committee: Year Ended 31 July 2020.

The Committee considered the detail of the Report, in particular

- Executive summary
- Financial statements opinion and regularity assurance conclusion
- Financial performance and going concern
- Key audit findings
- Key audit risks and outcomes
- Comparison of financial ratios
- Sector developments

Members were advised

- at the current date the external auditor expects to be in a position to issue an unqualified audit report on the financial statements of the College
- the majority of the audit work was undertaken remotely, due to Covid-19, which created additional work and pressure for both the College and Buzzacott teams
- a review of the February 2020 ILR indicated that the College was on course to meet its original delivery targets and correspondence with the ESFA regarding planned and outcome delivery has also been reviewed to confirm that no significant under-delivery has taken place
- no significant issues were found in the accounting and internal control systems during the audit

In discussion, members were advised that good controls continue to be in place at the College and the external auditor took the opportunity to thank the finance staff for their assistance during the audit.

The Committee agreed to accept the report, which will be presented to the Corporation Board on 10 December 2020.

AC.37.20 Annual Report and Financial Statements for East Surrey College 2019/20

The Chief Operating Officer presented the draft Annual Report and Financial Statements for the Year Ended 31 July 2020.

The attention of members was drawn to

- Report of the Governing Body
- Statement of Corporate Governance and Internal Control
- Governing Body's Statement on the College's Regularity, Propriety and Compliance with Funding Body Terms and Conditions of Funding
- Statement of Responsibilities of the Members of the Corporation
- Independent Auditor's Report to the Corporation of East Surrey College
- Reporting Accountant's Assurance Report on Regularity

Members reviewed each section, suggesting that the ratios for financial health might be checked so that they align with those in the auditor's post audit management report.

Members noted that the Finance and Resources Committee had given initial consideration to:

- Statement of Comprehensive Income
- Statement of Changes in Reserves
- Balance Sheet
- Statement of Cash Flow
- Notes to the Financial Statements

Members were advised that

- The College generated a deficit on continuing operations of (£467k)
- The College is expected to receive a clear financial statements and regularity audit report
- The college values its net current assets at £5.9m and will retain its financial health grade of 'outstanding' for 2019/20
- The Reporting Accountant is Buzzacott LLP

Members noted that it was the opinion of the Financial Statements Auditor that

- *The financial statements give a true and fair view of the state of the College's affairs as at 31 July 2020 and of its deficit of income over expenditure for the year ended; and;*

- *The financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and*
- *In all material aspects, funds from whatever source administered by the College for specific purposes have been properly applied only for those purposes for which they were received, and managed in accordance with relevant legislation; and*
- *The requirements of the Office for Students' Accounts Direction have been met*

Members also noted the conclusion given by the Regularity Auditor that *'in the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2019 to 31 July 2020 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.'*

AC.38.20 Regularity Audit Self-Assessment Questionnaire

The Chief Operating Officer presented, for consideration and approval, the College's Regularity Audit Self-Assessment.

Members noted that

- The Self-Assessment confirms the actions the College undertakes regularly to verify that its expenditure is appropriate and in accordance with relevant rules and guidance
- The Self-Assessment has been reviewed by the external auditor as part of their year-end audit function
- The Chief Executive/Principal and the Chair of Governors are required to sign the Regularity Audit Self-Assessment for 2019/20 on behalf of the College

AC.39.20 Letter of Representation in respect of the Financial Statements for the year ended 31 July 2020

The External Auditor presented the Letter of Representation in respect of the Financial Statements for the year ended 31 July 2020.

Members noted the detail of the Letter of Representation, which will be presented to the Corporation Board on 10 December 2020.

Resolved

The Audit Committee endorses and commends to the Corporation Board for acceptance and approval

- the Annual Report and Financial Statements for East Surrey College for the year ended 31 July 2020
- Post-audit management report for the year ended 31 July 2020
- the Regularity Audit Self-Assessment Questionnaire for the year ended 31 July 2020
- the Letter of Representation in respect of the Financial Statements for the year ended 31 July 2020

AC.40.20 Annual Report of the Audit Committee: 2019/20

The Director of Governance presented the Annual Report of the Audit Committee on the work of the Audit Committee during 2019/20.

Members were advised that

- the Audit Committee is required to provide an annual report to the Board and to the Principal and Chief Executive, which outlines the work undertaken by the Committee, and how the Committee has fulfilled its responsibilities as set out in its Terms of Reference and Standing Orders

- the Annual Report of the Audit Committee is required to be submitted to the funding agency together with the Annual Report and Financial Statements

Members considered the details of the Report, with particular reference to

- Clause 7 – Internal Audit
- Clause 8 – Financial Statements Audit
- Clause 9 – Regularity Audit
- Clause 10 – Risk Management
- Clause 13 – Assessment of the Audit Committee’s own effectiveness
- Clause 14 – Conclusion

Members discussed the detail of the report, making a minor amendment to the text. A final version will be presented to the Board on 10 December 2020.

The Committee noted the key impact measures of the report.

Resolved

The Audit Committee approves the Annual Report of the Audit Committee to the Corporation Board and to the Principal and Chief Executive, and commends the report to the Board for acceptance and approval

AC.41.20 Annual Risk Management Report: 2019/20

The Chief Operating Officer presented, for consideration and approval, the Annual Risk Management Report: 2019/20.

The Committee was advised of its responsibility

- to oversee the College’s risk management process in accordance with its Terms of Reference
- in accordance with the Post-16 Audit Code of Practice, to provide, in its annual report, an opinion on the adequacy and effectiveness of the College’s risk management

Members considered the detail of the Report, noting

- The work of the College’s Risk Management Committee
- There have been no changes in key personnel or in the Governance and Risk Management process at the College in 2019/20
- The College’s previous two years’ Governance and Risk Management audits have resulted in a ‘substantial assurance’
- Scrutton Bland were appointed in year to undertake key internal audits to give assurance on individual audits conducted
- Strategic Risks
- Corporation responsibilities for risk
- Management of risks
- Conclusion

The Committee noted the key impact measures of the report.

Resolved

The Audit Committee endorses and commends the Annual Risk Management Report: 2019/20 to the Corporation Board for acceptance and approval.

AC.42.20 Risk Management: Autumn Term 2020

The Chief Operating Officer presented, for consideration and approval, a report, which provided an update on the assessments and actions for the risks assigned to the Committee.

Members were advised, that the Risk Management Committee, comprising of the Executive and the Senior Leadership team from both colleges, met on 2 November 2020. The strategic risks assigned to the Committee remain as follows:

- AC1 – Failure of the College MIS systems to capture and maintain quality of data and reporting resulting in incorrect information and thus decisions – ‘fundamental’ risk – no change
- AC2 – Severe business disruption – ‘significant’ risk – no change
- AC3 – failure to achieve clean outcomes in College audits – ‘minor’ risk – no change

Members considered and discussed the detail of the highlighted revisions to each of the risks, noting that

- The red risks identified at the end of the summer term remain valid and are carried forward to the autumn term
- the impact of Covid-19 continues to be a significant risk to the College at this time and remains a ‘red risk’ on the register

Members agreed that the continuing actions being taken to manage the impact of Covid-19 and the measures in place to safeguard staff and students remain appropriate.

Members noted the key impact measures of the report.

Resolved

The Audit Committee endorses and commends to the Corporation Board the Risk Register: Autumn Term 2020 relative to the risks assigned to the Committee

AC.43.20 Review of College Policies and Strategies

The Chief Operating Officer presented, for consideration and approval:

- OSC73 Risk Management Strategy and Policy

The Committee was advised that

- The Risk Management Strategy and Policy document was approved by the Corporation in March 2019 to apply to the merged organisation
- The only change to the document is the introduction of a risk appetite grading of ‘risk neutral’ arising from a comment by the internal auditors

Members reviewed the document, making some suggestions to enhance the role of the Risk Management Committee and to make clear the principle risk owners.

Members noted the key impact measures arising from the report.

Resolved

The Audit Committee approves and commends to the Corporation Board for approval, subject to amendment as discussed

- OSC73 Risk Management Strategy and Policy

AC.44.20

Value for Money

The Chief Operating Officer presented, for information and consideration, a report on Value for Money.

Members were reminded that one of the Strategic Aims of the College is '*to generate strong finances and robust delivery structures that enable future investment and sustainability*' and to underpin this aim, the College continues to ensure Value for Money in the use of public funds.

Members reviewed the following key areas identified in the report as being of particular importance in assessing value for money:

- Staff Utilisation
- Class Sizes
- Large Contract Procurement

Members discussed the key areas of the report, noting

- In 2019/20 the staff utilisation report was unavailable due to the impact of the cyber-attack and the MIS systems undergoing a full re implementation. There is an awareness that, whilst staff hours delivered at ESC remain in line with budgets and best value, the opportunity was taken at JRC in the first year of merger to observe operations and the staff costs ratios indicate that JRC staff are not fully utilised
- Some class sizes were lower than target and were permitted to run where the strategic rationale was secure and where possible adjustments were made allowing groups to be combined for elements of the course, thus reducing staffing hours. Where class size is above target but lower than required to split the group, the Executive agree a small number of additional hours to ensure a positive student experience
- All quotations and tenders for large contract procurement continue to be obtained in accordance with the Financial Regulations

Members discussed the issues raised and, in response to questions, were advised that staff utilisation is presented within HR reports to the Finance and Resources Committee who will continue to monitor the issue relating to JRC being fully utilised.

Members noted the impact measures arising from the report.

Agreed

The Audit Committee receives and notes the report.

AC.45.20

Code of Good Governance for English Colleges

The Director of Governance presented, for information, a report outlining the College's Audit Review of Compliance with the Code of Governance for English Colleges.

The Committee was reminded that

- The Code of Good Governance for English Colleges was adopted by the College at the meeting of the Corporation Board held on 9 July 2015 and implemented with effect from 1 August 2015
- This Code replaces the previous English College's Foundation Code of Governance

The Committee was advised that the recent internal governance audit had been based on a review of the compliance with the section relating to 'effective governance structures', which had resulted in a strong assurance being given.

Members reviewed the document and noted that the Search and Governance Committee have approved this for endorsement by the Corporation Board at the meeting to be held on 10 December 2020. The Committee agreed that there was nothing further to be added to the audit of compliance.

The Committee noted the key impact measures arising from the report.

Agreed

The Audit Committee receives and notes the report.

AC.46.20

Annual Review of the restricted minutes of the Audit Committee: 2019/20

The Director of Governance presented a report, which outlined the basis on which, in accordance with Instrument 17(4), it is appropriate for the Committee to review the restricted minutes of the meeting of the Committee held during the current and previous years.

The Committee was advised of the criteria for confidentiality, which would need to be considered in this regard and noted that, in granting the release of any document for public record, the background reports and any other information considered at the time would also need to be released for public record.

Members were advised that there were no meetings held on a restricted basis during 2019/20.

The Committee was advised that a further review of any restricted minutes would take place at the equivalent meeting in 2021.

Agreed

The Audit Committee notes the report.

AC.47.20

Annual Review of the Business of the Audit Committee

The Director of Governance presented a report, which provides a review of the Action Points arising from the meetings of the Committee during 2019/20.

Members were reminded that, following each meeting of the Committee, a list of Action Points arising from the meeting is drawn-up and, at the next meeting, the list is reviewed in order to ensure that the appropriate action has been, or is being, taken.

The Committee was advised that the purpose of the report was to ensure that appropriate progress has been made against each of the identified actions required by the Committee.

Members agreed that all Action Points had been fully addressed to the satisfaction of the Committee.

The Committee noted the key impact measures arising from the report, in particular the Strategic and Risk implications.

Agreed

The Audit Committee receives and notes the report.

AC.48.20 KPI Dashboard

The Committee received the KPI Dashboard for Finance: October 2020.

Members reviewed the KPI Dashboard for Actual against Budget and Actual against the same period for the prior year for East Surrey College:

- Tuition Fees
- Employer Engagement Income
- Additional Contract Income
- Staff FTEs
- Staff costs as a percentage of total income
- Staff costs as a percentage of total income excluding subcontract
- Cash balance at month end
- Supplier invoice payment days
- 12 month rolling cashflow forecast

Agreed

The Audit Committee receives and notes the KPI Dashboard for Finance: October 2020

AC.49.20 Any Other Business

The Chair of the Committee advised that, following remarks by members relating to the large volume of papers, for this meeting in particular, whether there was some way these might be organised so that they were more evenly distributed. In discussion, it was accepted that the autumn term meeting is normally the heaviest meeting of the year due to a number of annual reports that were needed to be reported on to be fully informed on the financial statements. It was noted that the spring term meeting was usually very light.

It was agreed that the Chair of the Committee would meet with the Director of Governance and the Chief Operating Officer in the new-year to review agendas for the year and the cycle of business for the committee to ascertain whether there could be any flexibility with how these are structured.

There was no further other business.

AC.50.20 Dates of Scheduled Meetings: 2020/21

Thursday 11 March 2021

Thursday 10 June 2021

All meetings commence at 18.00

AC.51.20 Meeting of the external auditor with the Audit Committee

The external auditor advised members that there were no issues to raise and that he did not wish to meet with the Committee 'in camera' to discuss any matters.

SIGNED AS A CORRECT RECORD:



DATE: 11 March 2021