

THE CORPORATION OF EAST SURREY COLLEGE

AUDIT COMMITTEE

MEETING HELD ON THURSDAY 10 JUNE 2021, VIA MICROSOFT TEAMS

Meeting commenced: 18.00

Meeting ended: 19.50

Present

Alex Hayman
Ganesh Kumar
James Marshall

Independent Member Chair
Independent Member
External Co-opted Member

Apologies for absence

Peter Papanastasiou

Independent Member

In attendance

Jayne Dickinson
Jyoti Baker
Kevin Standish
Katharine Patel
Paul Goddard

Chief Executive (College Group) Principal ESC
Chief Operating Officer
Principal JRC Quality Lead (College Group)
External Audit Service: Buzzacott LLP
Internal Audit Service: Scrutton Bland

Clerk to the Committee

Sue Glover

Director of Governance

AC.14.21 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.

There were no declarations of interest.

AC.15.21 Apologies for absence

Apologies for absence were received from

Peter Papanastasiou - business commitments

Agreed

The Audit Committee agreed to receive the apologies for absence.

AC.16.21 Notification of any other business

Members agreed that there was no other business to be considered.

AC.17.21 Unconfirmed minutes of the meeting of the Audit Committee held on 11 March 2021

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

AC.18.21 Matters arising and action points from the minutes of the previous meeting

Members reviewed the schedule of action points, noting those completed and those that will be picked up at this meeting.

Members agreed that there were no other matters arising from the minutes of the previous meeting.

AC.19.21 Risk Management: Summer Term 2021

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:

- AC1 – Failure of the College MIS systems to capture and maintain quality of data and reporting resulting in incorrect information and thus decisions – ‘significant’ risk
- AC2 – Severe business disruption – ‘significant’ risk
- AC3 – Failure to achieve clean outcomes in College audits – ‘significant’ risk

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

- Risks associated with Covid-19 are included within Risk AC1 and AC2 and remain a ‘fundamental – red risk’
- Risk AC1 has decreased from ‘fundamental – red’ to ‘significant – amber’ as a number of the actions under the contributing risks have been completed and therefore closed off
- Risk AC2 remains ‘significant – amber’
- Risk AC3 has increased from ‘minor – green’ to ‘significant – amber’ due to additional requirements in the Post-16 Audit Code of Practice (ACoP)

The Committee were advised there are now more active requirements in the ACoP on the ‘Going Concern’ declaration made annually by governors in the Financial Statements. The College is forecast to make an operating deficit for the 2020/21 academic year. The College has made surpluses in past years and this stands us in good stead to manage the deficit for 2020/21, however, the risk is highlighted to raise awareness and understanding within the Audit Committee. The College has a healthy cash reserve, which will enable the Governors to make the ‘going concern’ declaration.

In discussion, members considered whether the wording of strategic risk AC3: ‘Failure to achieve clean outcomes in College audits’, would benefit from being reworded to better reflect the risk and impacts of the various audits. It was agreed this would be further considered outside of the meeting by the Chair and the COO.

Members were advised that there was a breach of College controls, which resulted in a potential financial loss for the College. The breach occurred in the payroll department, where a member of staff’s bank details were changed and salary paid into a different account. The appropriate HR processes and measures have been undertaken with the individual concerned. The College has recovered the funds and there is no financial impact from this external fraud attempt.

The risk rating and score under the appropriate contributing risk has not been amended as the fraud action was identified in a timely manner and the College has not suffered any financial loss. However, in discussion the Committee agreed that, although this had been the first such incident for the College, and in the light of the emphasis placed on the reporting of fraud by the ESFA in the ACoP, it would be prudent for there to be a standing item on agendas going forward so that the minutes can clearly reflect whether there have been any incidents or not.

Members noted the key impact measures of the report.

Resolved

The Audit Committee endorses and commends to the Corporation Board the Risk Register: Summer Term 2021 relative to the risks assigned to the Committee, subject to amendment as discussed

AC.20.21 Post 16 Audit Code of Practice for 2020/21

The Director of Governance presented for information the Post-16 Audit Code of Practice (the Code) for 2020/21

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

Members reviewed the key changes from the previous version and the schedule presented indicating how the various actions and considerations have been addressed.

In discussion, it was agreed that

- although the training and development of all members of the Board is kept under review by the Search and Governance Committee, members of the Audit Committee would also consider any training as required
- the external auditor would present their audit findings report to the Audit Committee as per current process and to comply with the ACoP requirements all members of the Board would be invited to attend that section of the Audit Committee agenda and the External Auditors would present the audit report on the financial statements to the whole board. The report has previously been presented to the Board at the December meeting as part of the papers the Board receive for approving the financial statements and this will continue.

Agreed

The Audit Committee agreed to receive and note the document

AC.21.21 Internal Audit

The Internal Auditor advised that as both internal audits have only just completed, the final reports have not yet been finalised and therefore the feedback sheets from each are presented:

Classroom-based Funding Assurance

Members reviewed the detail of the report, noting that the likely Overall Assurance Assessment is 'reasonable assurance' with six recommendations, three 'medium' and three 'low' level risk ratings.

Members discussed the issues raised and considered the responses to each of the recommendations. It was accepted that the remote enrolment process for the 2020/21 academic year, due to Covid-19, had resulted in some of the processes such as the students presenting their previous documents was significantly less efficient and resulted in the data being incomplete. However, the Committee was pleased to note that the mitigating controls in place and the return to face to face enrolment indicate that data capture processes will be significantly improved for the 2021/22 academic year. A follow-up internal audit will be able to evidence the success of enrolment this year.

Follow-up Apprenticeships

Members reviewed the detail of the report, noting that the likely Overall Assurance Assessment is 'reasonable assurance' and confirms that four of the six recommendations from the previous internal audit have been implemented, one has been partly implemented with the recommendation re-instated with one additional recommendation raised and one not implemented with the recommendation re-instated.

Members discussed the issues raised and agreed that, although the enrolment process had not been as thorough as it should have been, a significant amount of work has now been achieved to improve the process. The Committee took the opportunity to congratulate those involved for moving forward on the recommendations made by the internal audit.

Assessment of College Operations Assurance

The Chief Operating Officer presented, for consideration, a report detailing the sources of College assurance.

Members were reminded that, at the last meeting, it was agreed management would further review the internal auditor's proposed internal audit strategy and identify any gaps in assurance that may be required.

Members were advised that the following areas of assurance were reviewed by the College Risk Management Committee in May 2021:

- Key Financial Controls
- Funding Income
- Income Diversification
- Business Development
- Marketing and Staff Deployment
- Room Utilisation
- Learner Focussed, which included Safeguarding
- Compliance, Threats and Operational, which included anti-fraud and whistleblowing

The Committee considered the outcome of each of areas reviewed, noting how and when the various assurances are provided. In discussion, it was agreed that the College is well served in obtaining assurances to give the Board the confidence in the operations of the College. At this stage, there appears to be no gaps in assurance. However, it was agreed that it would be helpful going forward if a RAG rated table could be produced on an annual basis and presented to the Committee, which identified the sources of assurances.

Internal Audit Strategy and Annual Plan for 2020/21 – 2022/23

The Internal Auditor presented for consideration and approval the Internal Audit Strategy and Annual Plan for 2020/21 – 2022/23.

Members reviewed the detail of the report, noting the

- Requirements of an Audit Committee
- Audit plan requirements
- Audit areas completed in 2020/21 and those proposed for 2021/22 and 2022/23
- Audit universe and current requested coverage

In response to questions, members were advised on the approach to be taken with regard to the business continuity internal audit, which would be giving reassurance on the systems and processes in place, demonstrating the College's preparedness in the face of threats in its operating environment.

The Committee agreed that the internal audit plan presented a good level of cover for the relevant areas required.

Resolved

The Audit Committee

- Agreed to accept the feedback on the following internal audits
 - Learner Number Systems
 - Follow-up audit of Apprenticeships
- Agreed to receive and note the report on the assessment of College Operations Assurance
- Approves and recommends to the Corporation Board for approval the Internal Audit Assurance Strategy and Annual Plan for 2020/21 – 2022/23

AC.22.21

External Audit Strategy for Financial Statements year ending 31 July 2021

The External Auditor presented, for consideration and approval, the report on the East Surrey College External Audit Strategy for year ended 31 July 2021.

Members considered the key issues arising from the report:

- Overview of arrangements
- Financial statements and regularity assurance
- Issues of audit significance
- Fees
- Timetable and nature and scope of work
- Post-16 Audit Code of Practice 2020/21 – summary of changes

The Committee was advised that the document reflected the minor clarifications and updates in the 2020/21 Accounts Direction published by the ESFA and how the audit approach for gaining assurance on income from the funding bodies would be adapted in the light of the Post-16 Audit Code of Practice 2020/21 issued in March 2021.

Members were advised on the key risks of audit significance identified at the pre-audit planning meeting

- Coronavirus and going concern
- Income recognition
- Regularity
- Capital projects
- Bank loan covenants
- Staff costs
- Subcontractor provision

- Management override of controls
- Related party transactions
- Accounting estimates

Members were reminded that it is the Corporation's responsibility to certify and assure on the going concern status of the College. It was noted that the standard for Going Concern has been revised in response to recent enforcement cases and well-publicised corporate failures and, as such, additional work may need to be undertaken regarding the going concern assessment. The approach taken by the External Auditors, is to undertake a risk assessment of the 'Going Concern' status of the Colleges they are involved with. The East Surrey College Corporation Group were considered to be a low risk, due to the proactive measures being taken to identify and manage the deficit, as well as the controls, policies and procedures as identified during the External Auditors engagement with the College and Internal audit reports received to date.

The External Auditor advised that, in the light of the ESFA confirming that auditors are no longer able to place reliance on the final funding reconciliation statement to verify the accuracy of income claims made in year, alternative procedures are required to gain assurance over the validity of income and the fee estimate has factored in this additional work.

Members discussed the issues raised and agreed that the audit strategy for 2020/21 was appropriate. The Committee considered that the College's financial position is well monitored by the Finance and Resources Committee throughout the year. The revisions to the statement relating to 'Going Concern' and the Board's responsibility will be highlighted through the presentation of the External Auditor's audit strategy document to the Board in July.

Members noted the fee proposal, excluding VAT, for the financial statements audit, including regularity assurance and TPS is £21,800. An additional £850 has been included in respect of additional work required to comply with new auditing standards and £1,000 included for additional work required to gain assurance over ILR data.

Resolved

The Audit Committee approves and commends to the Corporation Board for approval and acceptance the External Audit Strategy for the year ending 31 July 2021 and the fee proposal

AC.23.21 Letter of Engagement: Financial Statements and Regularity and Teachers' Pension Auditor for 2019/21

The External Auditor presented, for consideration and approval, the terms of engagement between the College and Buzzacott LLP.

Members noted that

- The original document was agreed and signed in July 2019
- The document is submitted on an annual basis for consideration and carried over from the previous year unless any changes are requested by the College
- A revised letter dated 4 June 2021 is submitted to reflect the recent changes in the Post-16 Audit Code of Practice

Members reviewed the detail of the revised Letter of Engagement and agreed to the relevant changes.

Resolved

The Audit Committee endorses and commends to the Corporation Board for acceptance and approval the revised Letter of Engagement between the College and Buzzacott LLP dated 4 June 2021

AC.24.21 Terms of Reference and Standing Orders of the Audit Committee for 2021/22

The Director of Governance presented a report, which outlined the need to review, on an annual basis, the Committee's Terms of Reference and Standing Orders.

Members were advised that minor changes have been made in the light of the recent changes in the Post-16 Audit Code of Practice.

The Committee reviewed the proposed changes and considered these were appropriate with nothing further to add.

Members noted the impact measures arising from the report.

Resolved

The Audit Committee approves and commends to the Board the Terms of Reference and Standing Orders of the Audit Committee: 2021/22.

AC.25.21 Annual Schedule of Business of the Audit Committee for 2021/22

The Director of Governance presented a report, which outlined the need to review, on an annual basis, the Committee's Annual Schedule of Business.

Members were advised that the document has been compiled to include the items of business which are addressed by each Committee and items for consideration by the Corporation Board. The Audit Committee is asked to consider the items for business relevant to this committee.

Members reviewed the document and agreed this reflected the business that would need to be conducted by the Committee during the current year. However, in the light of the discussion during the meeting with regard to Fraud, the 'standing item' relating to this would be added.

Members noted the impact measures arising from the report.

Resolved

The Audit Committee approves and commends to the Board the Annual Schedule of Business of the Audit Committee: 2021/22, subject to amendment as discussed.

AC.26.21 Review of College Policies

The Chief Operating Officer presented, for consideration and approval, the following policy:

- OSC37 – Best Value Policy

The Committee was advised that

- A regular cycle of reviews ensures that College policies take account of any changes in legislations and remain relevant to College operations
- All policies have been reviewed and approved by the College Directorate
- The Best Value policy has been reviewed and remains fit for purpose

Members reviewed the detail of the policy noting the change to remove references to the EU standards and safety regulations and agreed there was nothing further to add.

Members noted the key impact measures arising from the report.

Resolved

The Audit Committee approves and commends to the Corporation Board for approval

- OSC37 – Best Value Policy

AC.27.21 KPI Dashboard

The Committee received the KPI Dashboard for Finance: April 2021, period 9.

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

- Tuition Fees
- Employer Engagement Income
- Additional Contract Income
- Staff FTEs
- Staff costs as a percentage of total income
- 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: April 2021, period 9.

AC.28.21 Any Other Business

There was no other business.

AC.29.21 Dates of Scheduled Meetings: 2021/22

Thursday 2 December 2021

Thursday 17 March 2022

Thursday 16 June 2022

All meetings commence at 18.00

SIGNED AS A CORRECT RECORD:

DATE: 2 December 2021

