



Minutes of the Audit Committee

Date: 15 June 2021

Present: Nigel Hainsworth (Chair)
James Parker
Paul Webley
Mo Hussain
Steph Tinsley
Jonathan Curtis

In attendance: Lorraine Swift Vice Principal Finance & Planning
Richard Bott Senior Partner, Mazars (remote attendance)
Michael Speight Senior Manager, Mazars (remote attendance)
Jeremy Stott Clerk
Diana Bird Vice Principal Curriculum (remote attendance)
Susanna Butler Minute Secretary

Apologies: -

Meeting commenced: 18:00

Meeting closed: 19:55

The Chair welcomed new members to their first face to face meeting of the Committee and introductions took place around the table. He also set out the purpose of the Committee for the benefit of new members.

01/21 Disclosure of financial and/or personal interest

There was no disclosure of financial and/or personal interest.

02/21 To agree agenda and order of business as circulated

The agenda and order of business were agreed

03/21 To approved the minutes of the meeting held on 24 November 2020

The minutes were approved as a true record.

04/21 Matters arising

a) **20/20ii) To appoint a Vice Chair of the Committee**

James Parker was nominated, seconded and approved as Vice Chair of the Committee.

b) **22/20a) Update on Penetration Action Plan**

The Vice Principal of Finance & Planning (VPFP) explained that a few audit assurance works had been carried over from 19/20 including penetration testing which happened back in November. As a result of that, further work has taken place and we have applied for Cyber Essentials which is seen as the kite mark for this type of work. We now feel happy that everything is in progress. There was a query about reference to lots of decommissioning and the VPFP confirmed that these systems are generally either updated or replaced. Another member asked if the College carries out phishing testing with the staff. It was confirmed that tests have taken place and at staff training days and we report all suspicious emails. All staff were also offered a suite of cyber training modules. R Bott from Mazars added that cyber security is seen as a key internal audit risk in the sector.

c) **26/20c) Appointment of External Auditors Update, including endorsing the recommendation to the March Corporation Meeting**

The VPFP reported that we did go out to tender and that Mazars are aware of the outcome. The question around internal audits is to be deferred until next year.

d) **29/20i) Update on Action Point**

The Clerk highlighted the White Paper and, as a result, the suggestion from this meeting in November that we should consider an external governance review. The Corporation agreed to the suggestion and delegated to the Search Committee the task to progress this. The Search Committee met to agree who should carry out the review and, after going out to tender, it was decided to appoint Stone King with the Review led by Ron Hill. He will be asking to meet with the Chairs of each committee in due course as well as SMT members and will be attending several committee meetings. We expect his report by early September.

e) **29/20iii) Update on Audit Assurance Action Plan 2020/21**

Already covered at c) above.

f) **31/20) Committee Vacancies Update**

The Clerk was happy to report that we have no vacancies and now have a full complement of audit members.

05/21 To receive an update on the Risk Register

The VPFP presented the update confirming that the scoring has not changed since last time but that some of the mitigations have changed in places. Those updates are shown in red. A key gross risk is failure to have a clean ILR audit as we have not had an audit for a few years. Another risk is failure to improve the financial base of the College but we are looking at a better year than we had originally thought, forecasting a modest surplus. Lots of savings have been made from home working and being on-line which has moved us from red to green.

1c) on failure to manage 19+ and apprenticeship targets within allocations is still

amber as we are expecting a significant clawback on the 20/21 AEB budget and move to devolved budgets in 21/22.

8c) on the impact of local policy, there is still a net amber risk due to the impact of devolution. We will have many small contracts in 2021/22 and trying to meet them all could be a challenge.

A member asked if we have looked at HMRC case v Colchester Institute and the possible impact on our current eligibility for 5% VAT on utilities. This is because the case suggests the potential shift of classification of ESFA income to business income. The VFPF confirmed that she had spoken to her VAT advisor and reviewed AoC advice. It is understood that HMRC are not making a specific appeal, but instead looking at the structure behind it. The advice is not to change our procedures currently. There would also be an impact on the zero rating of the Jonathan Silver Building where non business use has to be confirmed over a 10 year period to receive full zero rating. If the income was classed as all business, then we would lose that rating and incur VAT.

The Chair asked R Bott from Mazars if he feels the Colchester Institute case is a risk and he confirmed yes and that the VFPF commented the College may have to consider disclosing a contingent liability in the year end accounts.

The update was received.

06/21 To consider implementing a Governor Email Privacy Policy

The Clerk reminded members that this had been raised by this committee a few years ago at the time GDPR was coming in and the perceived risk of sending confidential information to governors private email accounts. It had therefore been proposed that information should only be circulated to College Gmail accounts. To assist governors, IT can configure the accounts so that notifications will automatically get sent to personal accounts to notify them if there is unread mail in the college account.

Members agreed to recommend to the Corporation 1) the draft 'Governor Email Privacy Protocol' (appended to the minutes) and 2) the Clerk to contact members to move this forward for the start of the next Academic Year.

07/21 To:

i) Review and consider for sign-off the Supply Chain Fees and Subcontracting Policy

The VFPF highlighted a few small changes with a general tightening up, but this has had no significant impact on our practice. It was noted that any subcontracting would require the provision to be audited. Richard Bott confirmed that due to a change in the Audit Code of Practice, this can no longer be done by our External Financial Statements Auditor (Mazars) but can be done by other External Auditors.

ACTION: The Chair to provide his electronic signature for signing off the policy.

Members approved for sign-off the Supply Chain Fees and Subcontracting Policy

ii) Review subcontracting as required by ESFA

The VPFP confirmed we have no subcontracting.

08/21 To consider the GDPR Annual Report

The Clerk said there was little to report with the majority of staff working from home which has meant very few data breaches. Only 3 were reported which did not warrant notification to the ICO. The VPFP commented that she felt it was not that staff were not reporting, just that there were less activities that can lead to a breach, like mail merge letters.

A member asked who makes the decision on the seriousness of the breach and the Clerk confirmed that all breaches are notified to the GDPR Core Team of which he is a member as the Data Protection Officer. At least 2 members of the Core Team evaluate and respond to the situation and the member was happy with that assurance. This team system ensures any breach is dealt within 72 hours.

09/21 To consider the External Audit Planning Memorandum, including the Engagement Letter for Financial Statement Auditors

R Bott from Mazars talked about the responsibilities of having to be ever more vigilant about phishing emails. He also explained the impact of changes to the Audit Code of Practice relating to assurance of ESFA income and the additional work needed. There has been lots of discussion between the audit firms and the ESFA about this issue and the consequences on the level of work needed. The ESFA document sets out the whole nature of funding and there have been instances where an organisation has been given a clean bill of health through its audit, only to be torn apart by the ESFA. It is a very complex area. He confirmed that they are putting together an audit programme around the ESFA document in line with discussions with other Audit firms and he will talk with the VPFP about what needs to be done which will take up a lot more time for Mazars and the College and may have an impact on the fee. However, they do carry out ESFA reviews so will be able to come up with a sensible plan. The VPFP added that it has been a long time since the last ILR audit but we have been audited more recently through the Leeds College of Building College. Mazars will need to do substantive testing but will take a risk based approach to reduce the sample size.

M Speight from Mazars then talked through the Audit Strategy Memorandum. Continuing with section 3, there are no significant changes to the timeline of the work for the regularities assurance. On Section 4: Significant Risks and Key Judgement Areas, a detailed call took place with the VPFP for planning purposes. They took that information along with the draft financial statements up to March and sifted through the data to determine which are the significant audit risks which tend to be around additional testing on income. He stressed that the

significant risks set out on page 15 are standard to any audit they undertake.

The significant risks are sector specific on the Going Concern status and there is a new auditing standard which talks about Going Concern. A greater level of scrutiny is now required due to outside pressures on the audit.

On the pension scheme, the liability increases **substantially and they can't predict** what might happen in terms of the net position on the balance sheet. They have asked their in-house actuary to look at the assumptions and say what they think is reasonable. On Materiality on page 23, he reminded the committee that they use income as their major threshold.

R Bott highlighted another change to the Code of Practice where the ESFA says the auditor should present their findings to the full board of governors. They have raised this with the ESFA and options are to record the audit meeting or be issued with an invitation to attend the Corporation meeting. However, they do not believe attending would add any value and could undermine the role of the audit committee. The draft Engagement Letter has been sent to the Principal for his agreement and signature.

The Chair thanked R Bott and M Speight for joining the meeting and they left at 7.07 pm.

Although members struggled to hear everything due to the remote connection, the Chair highlighted that the message has come across that there are challenges ahead and to expect their fees to increase. They will have a programme of questions and if we can say yes to everything, it should cut their samples down. We used to have an annual ILR audit and from what has been discussed, it feels this is coming back in.

The Audit Code of Practice became effective from Aug 2020 and a member highlighted that this means we cannot rely on the ESFA budget statement any more, so a higher level of audit regularity is required which takes us back to the ILR. The focus of the audit will be testing that the right processes are in place as opposed to the results.

10/21

To:

a) consider details of any significant changes to the Post-16 Audit Code of Practice 2020/21 published March 2021

Also covered at 09/21. Another change is the suggestion that Audit meet at least 3 times per year. The committee used to meet 3 times but felt they could cut it down to 2 which has worked well. As lots of organisations are looking at a hybrid approach for meetings going forward, it was suggested we could add a 3rd meeting to be carried out remotely and add to that agenda some of the more standard reports to leave more time to discuss planning at the other meetings.

ACTION: The Clerk to build an additional Audit meeting into the timetable for 21/22 with an indication of the likely agenda items.

b) agree an update to the Terms of Reference

The clerk highlighted the changes in blue.

The updated Terms of Reference (appended to the minutes) were agreed and are recommended to the Corporation for endorsement.

c) receive an update from Mazars on the impact on the external audit for 2020/21

Reported under 09/21.

11/21 To consider a review of the key performance indicators for External Auditors

The VPFP explained how there had been a lack of continuity due to having a new team in place but they did well in the circumstances and were experienced. Reservations this year **are that we haven't yet been told the name of the site team** so it could be a different team again, but they should follow the same process as before. Continuity and communication through the audit were the main challenges due mainly to the audit being carried out remotely.

The Chair acknowledged the glowing report which had very little to address.

12/21 To receive the ESFA's Financial Assessment Letter and Dashboard May 2021

The VPFP reported that the ESFA review our 3 years forecasts in July and then the year end accounts submitted in January and then send us a letter reporting on their assessment after each submission. We previously reported that based on the forecasts they agreed with our own assessment and grading of Good and removed the early intervention classification. This letter is relating to the year end accounts and again they agreed with our own assessment and grading of Good. They also sent us the Financial Dashboard which amongst other things, shows we have a good level of forecasting. In response to a member question of the benefits of being Good or Outstanding the VPFP reported, if we fall below Good, this means we have to send them regular management accounts which puts us on their radar. For anyone reaching Good or Outstanding, this can open up extra opportunities for accessing bids.

It was queried if they ever ask to see bank statements and confirmed no. However, they do ask for a declaration from the Principal as the Chief Accounting Officer to say the bank balance on forecasts submitted agrees with the bank statement, such as the forecast submitted in April 2021.

The ESFA letter and dashboard were received.

13/21 To receive the annual report on any instances of fraud

The Clerk presented his standard report which shows no serious instances of fraud for 20/21. One fraud was picked up on-line by Lloyds Bank as a transaction

had been attempted several times. It is difficult to understand how this happens when the card does not leave the building. The Fraud Indicators Checklist backs up the report which is a list of things that might flag up fraudulent transactions and we have updated our responses to that. We are therefore happy that we are doing as much as we can to stop fraud happening.

As part of the Audit Code of Practice, Annex D sets out 10 questions audit should ask themselves about fraud. Members were asked if they are still happy that the responses are relevant and they confirmed yes.

The annual report was received.

Paul Webley left the meeting for another appointment at 7.45 pm.

14/21 Any Other Business

i) Dates of meetings to December 2021

❖ Tuesday 23 November 2021 at 6.00 pm

ii) To consider and recommend to the Corporation:

a) changes to the Financial Regulations & Annexes

The VPFP reported some small updates such as changes to post titles and updating the terminology. Another change at 3.3.6 is to show that the cash flow has moved to the forecast report instead of the management report. She highlighted that the meal allowance for staff away on business/training has been increased from £12 and it was proposed this increased to £18 rather than £16 shown in the draft. This is rarely used, but the price reflects the cost of eating in hotels. The section on mileage claims has been reworded as travel from home to work is not included for reimbursement.

Members agreed to recommend to the Corporation changes to the Financial Regulations & Annexes

b) a review of the Whistleblowing Policy and Procedure

The Chair stated that he had a small proposal to the wording at 6.6 which he will send through after the meeting.

Members agreed to recommend to the Corporation the Whistleblowing Policy and Procedure

c) a review of the Data Protection Policy

Members agreed to recommend to the Corporation the Data Protection Policy

iii) To consider which recommendations/proposals are reported to the Corporation in more detail

- **Minute 06/21)** Recommendation to Implement the Governor Email Privacy Protocol
- **Minute 10/21b)** on the recommendation to endorse the updated Terms of Reference
- **Minute 14/21 ii)** on recommendation to the Corporation:
 - The changes to the Financial Regulations & Annexes
 - The Whistleblowing Policy & Procedure
 - The Data Protection Policy

iv) Future Meetings

The Chair said this face to face meeting had been useful to meet new members but recommended that future meetings be carried out remotely, unless social distancing measures have been removed. The set up and required layout of this meeting had meant that communication had been difficult for everyone.