

Meeting/Committee	Audit & Risk
Date of meeting	6 th June 2021

1 **Declarations of Interest and Eligibility**

The Chair requested governors declare any interests at the appropriate time during the meeting.

2 **Welcome, introduction and apologies for absence**

Attendees:

S Bulley, Chair
G Owen
J White

In attendance:

M Bagshaw	Interim Director of Governance
K Noble	Executive Director of Finance
J Austin	Principal/CEO
L Smith	RSM
D Watson	Grant Thornton
Callum ...	Grant Thornton

Auditors confirmed that they did not wish to meet with the committee without management present

3 **Minutes of the Meeting held on 28th April 2021**

The minutes were reviewed and it was agreed that they were an accurate record of discussions.

Resolved: to approve the minutes of the meeting held on 28th April 2021 as a true and accurate record.

There were no matters arising.

4 **Action Progress Report**

Committee were happy to note the content of the update provided.

5 **Risk Management**

The Executive Director Finance provided an update on a number of aspects.

1) Annual report on Risk Management activity

She provided a verbal update and indicated that this was a new item to be introduced and that, in her view, a more appropriate timing to complete would be in September when the full academic year has been concluded. She confirmed that examples had been provided and it was her intention to pass this over to the new appointee to complete (Interim ED: Finance Sept 2021).

2) Risk Register 2020/21

Executive Director Finance confirmed that the risk register provided includes updates to the tabs in relation to finance and corporate services. She indicated that updates on the other tabs had been put on hold as the college is moving to the new electronic risk management system. In relation to this, she confirmed that staff are currently completing training so that the system can be fully populated. She provided assurance that during the transition the executive are monitoring and tracking regularly. She confirmed that, as of today, all members of the executive team have been trained and that going forward the risk register will be expanded across the group.

3) Risk Appetite review

The Executive Director Finance acknowledged that the group hasn't necessarily set a risk appetite and that, as a first step, governors will need to decide how to determine what this is. Internal auditors expressed the view that this is something to be driven by governors and will be based upon the tolerance of risk for each aspect within the risk register and/or strategic plan. It was acknowledged that there will be a different appetite for the different risks that exist. It was also acknowledged that risk appetite will not necessarily be static as it will change as the risk profile also changes.

Committee were advised that it is usual within the sector to undertake an annual review but then to continually consider as circumstances may change in year. There are a number of ways of testing board risk appetite e.g. questionnaires or a workshop which can potentially be facilitated. What is important when considering appetite is to talk about themes rather than the specific risks.

Committee were advised that the strategic/main risks are now included within the new system and therefore it will be possible to provide these as a focus for governor discussions. It was agreed that the Executive Director finance would provide a broad outline of the risks on the new register (ED: Finance June 2021) and then the Board would look at the mechanism options for discussing and agreeing how to determine risk appetite (Board July 2021).

The CEO reminded the committee of the FEC recommendations in relation to the red risk areas i.e. recruitment in relation to 16-18, HE and apprentices and indicated that it will be important to be able to evidence mitigation and the actions taken.

AGREED: to note the content of the update provided.

6 **Exceptions Report**

The Executive Director Finance advised that there was nothing that was required to be reported under this item.

7 **Fraud, Irregularity and Whistleblowing**

The Executive Director Finance confirmed that there have been no instances of fraud, irregularity or whistleblowing.

8 **Internal Audit**

RSM presented a number of items, including:

1) Progress report

They explained that there were no substantive reports on the agenda today. There is one draft report with management which is in relation to ESFA funding compliance (including PDSAT). There is one further substantive report to complete in relation to 'follow up' and dates are in the diary to undertake fieldwork testing on this. RSM have also been commissioned to undertake the required subcontracting report.

It was confirmed that at the next meeting internal auditors would be presenting:

- a) Subcontracting compliance audit outcomes
- b) ESFA funding compliance (including PDSAT)
- c) Follow up on previous actions
- d) Annual internal audit report for 20/21

2) Draft plan for 2021/22

Key matters brought to the committees attention were:

- Level of resource is in line with previous years
- Plan is to continue using remote working unless there is a need for face to face meetings
- Areas of anticipated audit have been discussed with the executive team. College and RSM have looked at the current strategic objectives and would propose audits in the areas of:
 - a) Procurement and creditors – intention is to look at key controls, idea testing and significant transactions
 - b) Stakeholder engagement
 - c) Cyber security – they explained that in this area risks are on the increase and the intention is to look at IT security processes and procedures
 - d) Corporate governance and in particular college compliance with the FE Code of Good Governance
 - e) Maintenance and conditions surveys – how these fit with the overall estates management and how aligned they are to the curriculum, for example blended learning, T-Levels etc.
 - f) ESFA funding assurance – particularly because of the ACOP changes.

In relation to the funding assurance issue RSM advised that there are still to be discussions regarding the likely reliance that external auditors will place on any internal audit work and that there is much broader discussion in the sector in relation to this.

RSM asked the committee to consider whether they are happy to approve the:

- a) Areas proposed
- b) Indicative timings, and

c) Resource proposed
They provided assurance that the plan will be kept under continual review.

In relation to the planned work regarding cyber security the committee asked whether there would be any negative impact on the start of year work required. Auditors confirmed that the timing of this had been agreed with the Executive Director Corporate Services and therefore it was felt that there would be no impact.

On the basis of the information provided and discussion the committee were happy to approve the draft plan as presented.

Resolved: to approve the internal audit plan for 2021/22 as presented.

9 Audit Recommendations Report

The Executive Director Finance introduced this item and confirmed that the document provided is a summary of all recommendations from internal auditors and OFS, which has now been added as a separate tab. She advised that the majority of actions are either complete or partially complete. She expressed the view that good progress has been made since the last meeting.

Committee asked whether there were any particular areas of concern to highlight. Executive Director Finance indicated that apprenticeship enrolments is still one to watch. The college has updated its processes but internal auditors still need to test for efficiency and compliance.

AGREED: to note the content of the update provided.

10 External Audit 20/21 planning memorandum

Grant Thornton presented this item and drew the committees attention to their report which is the external audit plan for 2020/21 financial year, key matters noted were:

- Broadly the risk assessments are the same or similar to prior years
- There are new auditing standards this year and the report explains the impact on the audit approach
- Generally auditors are required to be more challenging, for example in relation to going concern and the risk assessment in relation to this.
- External auditors have to now obtain their own assurance regarding ESFA funding and are no longer able to rely upon ESFA reports/funding confirmations. There will no longer be assurance regarding appropriateness of income recognition via the ESFA mechanisms. In relation to this, audit firms nationally are still working out the audit approach to be taken and are in dialogue with each other and the ESFA. Unfortunately it will require additional work which will lead to an additional fee.
- The funding assurance testing required will not go to the same level of detail as an ESFA audit but audit firms will have to do more testing, however materiality will be considered. Audit is very likely to take a risk based approach, for example there is less risk regarding 16-18 funding and more risks regarding AEB and apprenticeship provision.
- External audit will look at internal audit work in relation to funding testing but there has yet to be agreement regarding the level of assurance that can be taken, that said it will not be the case that external auditors directly rely on internal audit work.

A challenge to the committee was that governors should be asking management how they obtain assurance regarding revenue recognition i.e. what are the internal and external assurance mechanisms. Committee were advised that the ESFA is producing a 'funding fact sheet' and it was agreed that once issued this would be reviewed to see how the college sits against the detail ([Audit Committee, September 2021](#)).

External auditors then identified the significant risk areas, which are:

- Main revenue testing
- Management override of controls – this is a non-rebuttable risk

Other risks include:

- Pension provision (LGPS and TPS)
- Going concern
- Employee remuneration – payroll costs are a significant number and need to be carefully considered. Testing of this area will include reviews of reconciliations completed.
- Completeness of trade creditors and accruals
- Bank loans – auditors will look at loan covenants, breaches and any impacts
- Deferred capital grants
- Enhanced pension provision
- ISA estimates
- Impairment, particularly in relation to National Fluid Power Centre

Committees attention was then drawn to page 12 which summarises the approach to materiality. Auditors confirmed that this will be reviewed between the planning and testing dates. Regularity is covered on page 13 and there are no major changes to report in terms of the expectations here.

Group audit scope includes:

- RNN Group
- NFPC
- Rotherham Education Services

This is sufficient to satisfy the full scope of UK statutory audits.

Page 15 sets out the logistics of the audit and, whilst the sign off deadline date is still to be confirmed, it is expected to be 31st December. ESFA may extend this deadline as they did last year but the plan is to have all audit work fully completed by the November/December audit and board meeting dates in any event.

Committees attention was then drawn to the section on fees and independence. In relation to independence auditors confirmed that they do perform some other services for the college but do not believe that it impacts upon independence. Fees proposed reflect the discussions at the last meeting but do not include the additional work now known to be required in relation to ESFA revenue recognition.

On the basis of information provided, committee were happy to agree the scope of work required but with the caveat that there is still an unknown element regarding final fee position because of the extra work required for ESFA revenue recognition.

AGREED:

- a) To note the content of the update provided
- b) Approve the external audit planning memorandum for 2020/21 as presented.

11 Committee Review

The interim Director of Governance presented this item and explained that it was an opportunity to reflect back on the year and consider any changes that may bring about improvements for next year. Committee discussed membership and all agreed that this could be improved through additional recruitment. They asked that the Search & Governance Committee, as part of their recruitment plans, look to identify a new governor who could support the work of the audit Committee. Committee also felt that they would benefit from additional training either online or through facilitated sessions. They felt that there was also a need to agree a mechanism with the Board to review risk appetite and that this would then become part of the consideration processes.

Committee considered the terms of reference and it was agreed that the interim Director of Governance would cross reference with the updated wording in the audit code of practice, particularly in relation to the requirement to look at solvency and safeguarding. (Interim Director Governance, July 2021).

Committee were happy to agree in principle the workplan presented.

AGREED:

- a) To note the content of the update provided
- b) Request support to recruit additional committee members
- c) Undertake committee training at the earliest opportunity
- d) Approve the work plan as presented.

12 AOB

There were no items of additional business.

13 Date and Time of Next Meeting

The interim Director of Governance confirmed that the full proposed calendar of meetings will be presented to the July Board meeting for approval.

14 Confidential Items

It was agreed that these would be recorded on a separate basis.

(Auditors left the meeting at 6.05pm)

The meeting closed at 6.20pm.

Signed _____ Chair

Date _____