

Meeting/Committee	Audit & Risk
Date of meeting	Thursday 15 th September 2022 at 5pm

1 **Declarations of interest and eligibility**

The Chair reminded everyone present to declare any interests at the appropriate time during the meeting. No specific declarations were made and standing declarations were noted.

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

Attendees:

Stephen Bulley	Chair
Sharron Blackburn	
Roopa Patel-Harji	

In attendance:

Maxine Bagshaw	Director of Governance
Phil Curtis	Executive Director of Finance
Jason Austin	CEO/Principal
Lisa Smith	RSM
Ryan Falls	Cavanagh Kelly

Apologies for absence

There were no apologies for absence with all members of the committee present. Director of Governance advised that Jo White had resigned from the board on the 14th September 2022 and therefore new governor recruitment would need to take place, with the expectation that one new governor will join this committee at the earliest opportunity.

Ryan Falls from the external auditors Cavanagh Kelly was welcomed to his first meeting and round table introductions were made.

Auditors confirmed that they had not requested a meeting with the committee without management present.

3 **Minutes of the Meeting held on 8th June 2022**

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 8th June 2022.

As a matter arising, one member of the committee asked for an update on the action at page 5 i.e. 'RSM to specifically detail how overdue some of the actions identified in the follow up audit were'. She acknowledged that an email had been circulated quite shortly after the June meeting to provide the requested clarification and it was made clear that some of the actions agreed were very old with a number of extensions provided. Committee asked whether there had been any further progress on these. Executive Director Finance was unable to respond to the query in the meeting and therefore agreed to give an update at the next meeting (**Executive Director Finance, November 2022**).

4 Action Progress Report

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

5 Internal Audit 2021/22

RSM advised that there were three aspects to present to the committee today and each was considered in turn.

1) Cyber security internal audit report

Key matters highlighted were:

- RSM were only able to give a partial assurance conclusion.
- There are four high priority actions, which primarily relate to the absence or adherence to policies and procedures.
- Audit also identified some issues in terms of physical security of the servers i.e. a master key for all doors on the site widely available to a number of staff and also provided to contractors.
- Also, an issue was identified in relation to network access i.e. a lack of a formal policy and procedure in relation to this.
- Audit found that there was a lack of clarity in terms of roles and responsibilities and in some instances insufficient training provided.

RSM confirmed that none of the issues identified have come as a surprise to staff and that the audit requested was because of a number of internal concerns that already existed. She expressed the view that the issues are indicative of the lack of investment made in IT, both at RNN and the wider FE sector. Committee were advised that all colleges have to be able to demonstrate that they are compliant with the Cyber Essentials criteria by 2023 and that this is a significant issue and challenge as the 2022 update is even more demanding.

CEO advised that the former Executive Director Corporate Services had responsibility for leadership in this area but that, as he has now retired, the group is recruiting to replace him and will be looking for strong leadership and accountability in this area. CEO advised that, as an interim measure, he has individual responsibility and is planning meetings with the IT manager to better understand the investment required.

Challenge from the committee was that addressing the absence of policies and procedures and associated staff training should be something that could be dealt with quickly.

One governor made reference to the comment on page 2 of the report that there was 'general resistance' to more robust controls and she asked what could be done to address this. Executive Director Finance explained that there is a 'miss match' between curriculum areas and how they want to operate which differs from an IT security perspective and, one example given was allowing students to bring in their

own device and access the network. It was acknowledged that this 'miss match' is not uncommon in the education space.

Executive Director Finance indicated that there are several themes emerging following this audit and also the process to obtain cyber insurance, with the latter highlighting some questions that have to be answered and which have flagged up some issues. He advised that cyber insurance was still not in place but that the team anticipate being able to respond to all queries shortly, but that the process has identified some areas which require a focus. He indicated that the group was also looking at the potential to partner with an organisation to help align the curriculum requirements with IT requirements and that a key part of this is better communication. All within the group agree that flow of communication could be improved and that this would avoid barriers. He confirmed that staff were developing an IT Strategic Plan for the next 2-5 years and that this would be shared with governors when available as part of next year's budget planning process. (Executive Director Finance, March 2023).

Committee were given assurance that the IT department are incredibly security conscious and in fact it is their number one priority. This in itself can be frustrating for the curriculum areas, as there is a difference of opinion in relation to what should and shouldn't happen. Challenge from the committee was that addressing the issues is clearly something for the new interim Executive Director to look at as a priority.

One member of the committee asked how many physical servers the group has. They were advised that there are two locations at Rotherham Campus and one at DVC. Committee were given assurance that there is some resilience and that a recent internal incident saw Rotherham College servers automatically transfer to DVC as a back up with no interruption to service. Executive Director Finance confirmed that the locks on the server room doors would be changed as a matter of urgency.

Challenge from one member of the committee was for staff to also seek assurance regarding cyber security from third party suppliers/organisations as there is a need to be confident regarding their ability to recover data. Executive Director Finance confirmed that the group does have a number of backup plans and processes in place, however he acknowledged that a whole system test had not yet been undertaken. An observation made by one governor was that, with more data now being held in the cloud, it should pass on more security responsibilities to other providers.

AGREED: to note the content of the report provided.

2) Subcontracting controls audit certificate

RSM advised that this piece of audit is not part of the annual plan but is an annual requirement by the ESFA up to July 2022. She advised that for the 22/23 academic year there is a different process in place. She described it as an agreed upon procedures piece of work with the report commenting on factual findings. She was pleased to confirm that there were only two weaknesses identified, the first being in relation to the group sending due diligence checks to the ESFA and the second being the obtaining of legal advice on contract terms and conditions. In relation to the first, she confirmed that due diligence had been undertaken but that the outcome of this had not been forwarded on to the ESFA as required. She indicated that, whilst there is no assurance opinion provided, this is one of the cleanest outcomes that she and the team have seen across their client base. She confirmed that the certificate was submitted to the ESFA as required by the deadline date of 31st July 2022.

In relation to the point made about obtaining legal advice, the Executive Director Finance confirmed that the group has now signed up to an annual arrangement with Eversheds and that part and parcel of this is their ability to use template contract

terms and conditions. In relation to due diligence reporting to the ESFA, he confirmed that procedures are now in place to ensure that reports are provided on a timely basis.

AGREED: to note the content of the report provided.

3) 2021/22 Annual report

RSM advised that as all of the planned audit areas for 21/22 have now been completed and therefore it is possible to provide the annual summary. She drew committees' attention to page 2 which provides an overall conclusion that the group has an adequate and effective framework in place, however there have been some actions identified within the year which would lead to improvements and these are summarised in the table. Key matters highlighted by RSM were:

- Scoping limitations – the annual opinion is only based upon actual reviews undertaken and Audit & Risk Committee meetings. There were also some operational constraints during this academic year because of the pandemic.
- Page 3 summarises all of the findings in the reports presented to the committee
- Page 4 picks out the themes seen in the year, with five actions identified in relation to policies and procedures, five in relation to the design framework and one in relation to training requirements for staff.
- Page 7 provides a comment on conflict of interests. The only non-planned piece of work undertaken by RSM was in relation to the subcontracting controls certificate and RSM do not believe that this would give rise to a conflict.
- Report confirms that RSM comply with all the required auditing standards

RSM confirmed that, if the draft is agreed by the committee, then it can now be amended to final form for circulation and utilisation by the committee in its own annual report to the board. Committee discussed the content and were happy that it accurately reflected the year.

AGREED: to accept the content of the draft annual report as presented.

(Daniel Stanbra joined the meeting at 5.30pm)

6 Internal Audit 2022/23

RSM introduced this item and drew committees' attention to the progress report which summarises current position against the plan agreed at the June meeting. She indicated that, whilst it was very early in the audit cycle, the team had been able to agree audit dates with staff. RSM and staff have been able to agree the assignment planning sheet for Health and Safety and this is included within the meeting papers for comment and feedback. Also provided in the report are a number of sector briefings.

Committee discussed the pros and cons of having the audit planning sheets shared with them in advance of fieldwork. RSM confirmed that these are prepared approximately six weeks in advance of the work commencing but that the dates would not necessarily align with audit committee meetings. Committee agreed that having them in advance was helpful and informative and therefore it was agreed that RSM would provide, via uploading to their huddle system when available, even if it is outside of the committee meeting cycle and then the Director of Governance will circulate to committee members for comment.

Committee then discussed the Health and Safety planning sheet and RSM advised that it was not a 'typical' audit. It focuses on the high-risk areas, particularly

compliance, rather than wider health and safety considerations. She described this as a very focused piece of work which is planned.

Executive Director Finance advised that the group is developing a compliance tracker which is linked to both statutory requirements and also best practice and that this audit will be really useful to test that what the group has in place to ensure compliance is fit for purpose. All acknowledged that this was also important for insurance purposes.

AGREED: to note the content of the update provided.

7 External Audit 2021/22 – Planning Memorandum and Timetable

Cavanagh Kelly were welcomed to the meeting and they took the opportunity to provide some background context to their appointment and also audit work in the sector. They then drew committees' attention to the plan and a number of key points were highlighted, including:

- Team will comply with all international auditing standards
- Team are able to confirm independence
- There is clarity provided regarding data collection procedures
- As this is the first year of audit the team have been in contact with the predecessor to obtain information which helps Cavanagh Kelly to build knowledge. The team have also been able to visit the groups sites.
- A number of significant risks have been identified, which include:
 - 1) Revenue recognition
 - 2) Management override (i.e. fraud, journal manipulation etc.)
 - 3) Ability to confirm going concern
- There are a number of 'other' risks also identified, including:
 - Staff costs
 - Deferred accruals in income
 - Clawback
 - Pension
 - Regularity
- Materiality limits have been set based upon income
- Plan includes details of the team who will undertake the audit work
- Timetable is provided, with the plan being that the final report is ready to be presented to the November committee meeting.
- Plan summarises the fees which were agreed as part of the tender process

He confirmed that the team have been able to start work with the group and that all are keen to maintain the pace.

One member of the committee noted that there was a reference to 'new standards' in the plan and they asked whether consideration of these had been factored in to the work required. Cavanagh Kelly confirmed that it had and that there would be no additional costs associated with this.

AGREED: to note and approve the external audit plan for 2021/22 as presented.

8 Exceptions report

Executive Director Finance confirmed that there were no issues that need to be brought to the committees' attention.

9 OfS Audit Outcomes and Action Plan

Executive Director Finance introduced this item and drew committees' attention to the full report and also the covering letter. In summary he advised that the OfS opinion is that they 'have no assurance regarding the groups data'. He explained that there were a number of process and calculation differences between what MIS do and what OfS want and that the error rate ranged between 7% and 40%. He explained that this is because one calculation error is then extrapolated and repeated which leads to an ever increasing impact.

Committee were advised that the former MIS manager has now retired and that there is an interim in place who is making early improvements. He explained that it will be an iterative process as staff will need to do a lot of repeat testing to clearly identify where errors are. Committee were advised that, because of the issues identified by the OfS, RSM will be completing their internal audit work in this area early in January 2023 rather than as planned in March to give a further check on actions being taken. He provided assurance that all within the organisation want to make sure that the data is better. RSM will review the eight points identified in the OfS audit and they will look at both historic and current data. As part of the action plan agreed with the OfS they will see the RSM report and the group has committed to actioning any improvement recommendations within this as quickly as possible.

RSM took the opportunity to advise that this type of report for FE colleges is not uncommon because college ILR systems are simply not set up to work in the same way as HE. In addition to this, OfS have a lack of understanding regarding the differences between FE and HE which does lead to issues. Committee were advised that the ultimate risk to an organisation is removal from OfS registration, however RSM have not seen any instances of this. It was acknowledged that OfS will look at materiality when making any sanction decisions and that, in reality, delivery of HE at RNN is quite small.

In relation to the action plan, the OfS have had the draft and have provided feedback. In response to this the action plan has been updated and sent to OfS for agreement. Executive Director Finance confirmed that the final version of the action plan would be circulated to committee members for information ([Executive Director Finance, October 2022](#)).

Question from one member of the committee was whether or not a software provider could help to provide a solution to the issues identified. Executive Director Finance expressed the view that the group now has a very competent interim in place and that importantly staff are now using the OfS tools to undertake testing and validation, which should help to significantly address the issues.

AGREED: to note the content of the update provided.

10 Regularity Self-Assessment Questionnaire for 2021/22

The Executive Director Finance shared the format of the questionnaire for this year and confirmed that he will now start to populate. It provides a list of questions which need to be answered and then the document is signed by the CEO and Chair of the Board and submitted to external auditors. He indicated that, it will involve a lot of review work so that he can provide the assurances required before it is signed off as approved. He confirmed that a final version of the completed questionnaire would be provided to committee at the next meeting ([Executive Director Finance, November 2022](#)).

AGREED: to note the content of the update provided.

11 Risk management

- 1) Annual Report for 2021/22

Executive Director Finance confirmed that this will be provided at the next meeting as part of the year end process ([Executive Director Finance, November 2022](#)).

2) Risk Register 2022/23

Executive Director Finance described ongoing development through the 4Risk system. He highlighted ten strategic risks which are a priority focus. Specifically noted were the two risks which relate to income and he advised that the group is still awaiting final enrolment numbers so that the current income risk could be assessed.

A number of items were particularly noted and discussed, including:

- Risk SR4 in relation to AEB income – 21/22 was the second year where there was AEB clawback and therefore this is considered to be high risk and also potentially high value which is why it is RAG rated as red.
- Quality of education – staff are currently undertaking a review and a report on this will go through the Quality and Standards Committee
- Whilst the risk register is still being updated the key risks are income, enrolment numbers and AEB.

3) AEB Risks

Dan Stanbra drew committees' attention to the risk register created for AEB in 2022/23 and confirmed that there are a number of key actions being taken/required, including:

- A need to improve reporting and specifically that, updated reports are to be provided more frequently regarding the profile for both D2N2 and SYMCA. This will help to mitigate the potential for both under and over delivery.
- Introduction of additional reporting lines which will break down the detail so that there is a greater line of sight on all aspects.
- Recruitment of a new Executive Director to add capacity and leadership
- Flex in the budget more frequently so that the group can focus in much earlier where needed

Committee were advised that this risk register links to risk 42 on the strategic register and that all of the controls and/or actions identified are current and being implemented. Challenge from the committee was that, for them what is important is to know that there are no gaps in the systems and processes.

Committee were given assurance that risk controls are in place and that, particularly the third column identifies actions required. Committee were given assurance that these are being progressed.

Executive Director Finance expressed the view that one of the key mitigating actions is to ensure that the marketing strategy meets the needs of the AEB team and that this has been a focus. He indicated that, it is now still very early in the year but that as the year progresses staff will be able to provide the evidence on the impact of actions being taken.

Committee asked for a progress update on issues identified in the ESFA mock funding audit at the last meeting. Executive Director Finance confirmed that the interim MIS manager has given assurance that all actions have been implemented.

4) Risk Appetite – thematic based approach proposals

Executive Director Finance indicated that he and RSM are still investigating how the 4Risk system can cluster in to themes. He explained that the system is currently set

up to focus on 'functions' rather than themes. It is possible to report on linked risks easily however not themes and an example given was 'reputation'. Lisa Smith indicated that she would ask the insight team to contact the Executive Director Finance to see what support can be provided in relation to this (Lisa Smith, October 2022).

In relation to the AEB profile, committee were reminded that it is cumulative i.e. there are September starts but there is also roll on roll off provision. Staff expressed the view that the organisation was in a much better position at the start of this academic year, in terms of capacity and processes, and that it had been possible for the AEB team to be involved in curriculum planning processes too which ensured that there was an ability to influence. He expressed the view that there were still opportunities to grow numbers and provision in this area.

Committee were reminded that the D2N2 allocation in 2022/23 is £2.4 million which should be compared with £2.5 million in 21/22. This is the figure following devolution. Staff advised that the organisation was in a much stronger performance position than in previous years and that staff are actively working with partners to drive up student numbers. An observation made was that, as the profile for AEB in 2022/23 has reduced, this should also reduce the risk of underperformance.

AGREED: to note the content of the update provided.

12 Fraud, Irregularity and Whistleblowing

Executive Director Finance confirmed that there were no matters known and therefore nothing to report.

13 AOB

There were no items of additional business.

14 Date and time of next meeting

This was confirmed as 21st November 2022.

The meeting closed at 6.30pm.

Signed _____ Chair

Date _____