

**BRIGHTON HOVE AND SUSSEX SIXTH FORM COLLEGE**

**MEETING OF THE AUDIT COMMITTEE HELD ON**

**THURSDAY 24<sup>TH</sup> NOVEMBER 2022**

**IN THE PRINCIPAL'S OFFICE**

Present: Jo Davis (Chair), Paul Lovegrove, Rob Milton, Neil Perry, Simon Porges (Vice-Chair)

In Attendance: William Baldwin, Jutta Knapp and Louise Pennington and Sandra Prail (for external and internal audit items) and Jacquie Punter (for Internal Audit report on Digital Security)

Dominic Blythe and Rebecca Eades (RSM UK – External Auditors) – for items 2.1 and 2.2) and Chris Rising (McIntyre Hudson – Internal Auditors) for Item 2.5 – joining the meeting via Teams.

The meeting was quorate.

***NOTE: FOR EASE OF REFERENCE QUESTIONS AND COMMENTS FROM GOVERNORS HAVE BEEN INCLUDED IN BOLD ITALICS***

**SECTION 1: ROUTINE AND STANDING ITEMS**

**1.1 Apologies and Welcomes**

Apologies: Sarah Bovill

Welcomes: Paul Lovegrove (External Governor), Rob Milton (co-opted Audit Committee Member)

The meeting was quorate.

**1.2 Minutes of the Meeting held on 28<sup>th</sup> June 2022 (deferred from 23<sup>rd</sup> June 2022)**

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

**1.3 Matters Arising**

**a) Actions' Schedule**

The contents of the actions' schedule were noted by the Committee, taking into account those items which had been completed and those which were being carried forward or due to be completed later in the year.

Nothing to go through – all done or underway or on agenda.

**1.4 Declarations of Interest – None declared.**

**1.5 Principal's Report**

The Principal referred to his termly Principal's Report going to Corporation which all Governors would see with the corporation meeting papers December 2022 meeting and highlighted a few key points from that which would have particularly relevance to the Audit Committee:

- Government Autumn Statement – no additional funding for 16-19 age group, although additional funding has been found for 5-16 education, which means a real term cut in funding for Colleges, and a significant increase in financial constraints particularly with the added impact of cost of living, energy costs increasing etc
- National Pay negotiations for the SFC sector – Support Staff negotiations with SFCA and Unions has settled at 5% but with the option to revisit this if/when a settlement is reached with the SFCA and the Teaching Union (NEU). The NEU members have agreed to take strike action, having rejected the 5% pay offer and the first strike is on Wednesday 30<sup>th</sup> November. This is an SFC strike only and has not been coordinated with other education providers, which would have more impact. It's likely that further strike action will take place and at some point this may be coordinated with Schools. As reported at the recent Resources Committee meeting held earlier this week, SLT is working on next year's budget to take account of estimated pay increases and affordability.

- ONS (Office for National Statistics) – reclassification of FE Colleges from private sector to public sector announcement expected on 29<sup>th</sup> November, after which the College will need to review the implications of this including VAT treatment, loan arrangements etc

## SECTION 2: AUDIT AND INTERNAL ASSURANCE ITEMS

### 2.1 Audit Findings Report – RSM UK (External/Financial Statements Auditors)

- a) **Audit Findings Report** (noted that this had been circulated separately to the Committee members and was not included in the full meeting pack).

**Appendix A Draft Letters of Representation (financial Statements and regularity audit)**

**Appendix B Emerging Issues**

Jutta Knapp introduced the agenda item, providing some context on the subject matter to inform the new Committee Members.

The Annual Report and Financial Statements was considered at the Resources Committee held earlier this week and they recommended these to Corporation for approval. The annual Report and Financial Statements have been included within the Audit Committee papers for supporting information in connection with the Audit Findings Report, noting that the Audit Committee's responsibility was to provide assurance to Corporation regarding the audit processes involved in the External Audit work.

Dominic Blythe and Rebecca Eades presented their Report to the Committee, highlighting the following points:

- Attention was drawn to the Executive Summary key points on page 3 of the document, particularly in respect of the overall conclusions and opinions – providing an unmodified audit opinion in respect of the financial statements.
- The separate engagement regarding the regularity audit work was drawn to the Committee's attention – being an ESFA requirement in respect of the College's public funds, to ensure appropriate use of public money used by the College.
- All core work undertaken has been completed satisfactorily.
- Outstanding items were highlighted for completeness and it was confirmed that the audit work would be up to speed on all items at the point of signing the accounts.
- Risks identified at the planning stage remained unchanged throughout the process and tied in with the audit plan.
- Risk 1 – income recognition (relating to grant income); extra audit work was required this year owing to the further testing on income spent to ensure this had been recognised correctly during this period, checking this against the standard ESFA forms submitted. It was confirmed that there were no material misstatements, within the disclosures regarding grant income this year. Reference was made to the Audit Code of Practice (ACOP) applicable to FE Colleges and audit work, noting that this had been revised last year (as reported at last year's Audit meeting in the Autumn term 2021- relating to the financial statements), with further revisions again this year (iro the regularity audit work) – noting the audit work had increased following the changes, whereas before the revisions, the auditors were able to play reliance on the ESFA's own audit work in this area which had been discontinued since the revision had been applied.
- Risk 2 – management override of internal control: it was explained to the Committee that such instances often arose within Colleges regarding journal posting and that the auditors had sample tested this at the College in respect of the current year, noting that their new data analytics facility had been utilised to assess this area, whereby the full general ledger was uploaded into the auditors' programme to identify any unusual transactions, which if identified, were then investigated further by the auditors. Accounting information was also taken into account and no material misstatements regarding accounting estimates had been identified during the audit work.
- Risk 3 – Pension Scheme liability: it was noted that this was classified as a higher assessed risk within the financial statements for most FE Colleges and that an actuarial report was required every year, provided by the pension scheme's actuaries, to include the appropriate figures for the year within the accounts. The figures were confirmed to be correct by the actuary and recognised in the financial statements, as detailed in the Audit Findings Report. The auditors reviewed the assumptions made by the actuaries regarding their calculations and compared this with other similar FE Colleges and the auditors confirmed that these were in line with other Colleges actuarial reports. At this point Dominic Blythe provided some additional context, explaining that it had become apparent at the beginning of the Autumn term that unusually, there were surpluses were being calculated in respect of the LGPS (Local Government Pension Scheme) and which would therefore have a potential impact from an accounting viewpoint – ie should this be recognised as an asset (it has since been concluded in the sector that it would not be appropriate to recognise this as an asset and that instead a "nil" entry should be included in the financial statements). In BHASVIC's situation, the figure remains a liability but much reduced compared to previous years; the reducing liability is consistent with

the overall outcome for Colleges LGPS in the sector. ***In response to a question from the Committee, Dominic Blythe explained that the reducing liabilities/asset movement was broadly caused by the change in the discount rate on the pension funds. Furthermore, regarding any impact on the College's contributions to the pension scheme on behalf of its Staff, Jutta Knapp confirmed that the triennial valuation on the pension scheme had been received today and the valuation was very positive, confirming that the surplus position was sustained and consequentially the Colleges contributions will remain unchanged for the next 3 years.***

- Referring to the last bullet point and the extra disclosure included, Dominic Blythe explained that some actuaries (different area LGPS have different actuaries) were taking into account expected increases as a result of increasing pensions and revising their calculations accordingly. However, in respect of BHASVIC and its LGPS, there were no areas of particular concern this year.
- Going Concern – the auditors confirmed that they concurred with the conclusion that the College is a going concern, notwithstanding the various challenges in the current climate – cost of living increases, impact on the bank covenants etc and noting the impact this has on the EBITDA (earnings before interest, taxation, depreciation and amortisation). It was also recorded that the auditors had had a conversation with the bank regarding the College's loan arrangements and associated covenants and found the bank manager to be very supportive of the College. If the bank covenant/s were breached at any point, then this would generate a potential financial reporting requirement.
- Follow up – nothing of significance has been identified or of concern to the auditors.
- Recommendation regarding the subject of IT Security and Procedures – the external auditors have included this item within their report, but noted the summary outcome of the internal audit process and will continue to keep this under review owing to its importance in the sector.
- Recommendation 2 – Cintra access pay roll system: in the year this moved to a cloud-based system and as part of the audit review and following some testing, there were some administration rights identified on Cintra, which had not been noted or revised arising from Staff changes. Therefore, the auditors had not relied on Cintra for testing. The auditors highlighted the risk arising from this, particularly in light of the cyber security issues. although there were no specific issues of immediate concern identified.
- Recommendation 3 – this related to a similar point raised in a previous audit (2019) with respect to lettings and although this was not of concern in terms of a misstatement point of view, it has been raised by the auditors owing to compliance, particularly in light of the levels of income and potential tax implications which may be seen as a “grey” area; important to ensure that the lettings relates to rental only and not extending to the provision of other services/associated costs. If the latter is offered, the risk is that there is a potential liability. Post Covid, this issue has been raised by the auditors as the risk could be greater now that lettings income has been re-established. It was also recommended that the College may wish to consider seeking specialist tax advice in respect of this income. ***In response to a question from the Committee regarding the management's response, it was noted that there was no confirmation that specialist tax advice would be sought, but the recommendation was not mandatory. Jutta Knapp advised that advice had been sought in the past (with processes reviewed and revised by the College based on the recommendations made at that time), but as the College was only providing lettings (room only) and no additional services, it was not thought to be a risk; it was resolved to update the management response on this basis. ACTION: Jutta Knapp. It was also recorded that income was unlikely to increase significantly above the existing net profit of £75K. SLT may opt to seek specialist tax advice if there is any intention to increase lettings – noting that the College would be able to let the Copper Building in another 2 years.***
- The next section of the report will include relates to previous audit points raised which have been reviewed by the auditors and where there have been no re-occurrences, so no management responses were sought.
- Page 13 of the report highlighted the adjustments made in the accounts, noting 1 adjustment made to pre-payments which was recognised at the budget year end. Some pre-payments had been delivered in the prior year as the auditors had checked the delivery notes and invoices, hence the need to adjust as a fixed asset rather than a pre-payment in the accounts. Attention was drawn to the audit work relating to the fixed asset register to determine nil value items and noting that no adjustments were made whether items are no longer held by the College (nil value so no impact). Attention was drawn to Management to monitor this in case above nil value items and to focus on how often disposals are reviewed, which was annually pre-Covid, noting that such disposals were generally IT related. Jutta Knapp confirmed that the process would be returning to an annual exercise with immediate effect to ensure nothing is overlooked going forward.
- ONS matter – ***in response to a question from the Committee, the external auditor advised that at this stage until the Government decides upon how to action the ONS recommendations once announced later this month, it was unclear what the implications were upon Colleges. Once the outcome and impact are known, the Governing Body will meet, probably via an interim review of its strategic plan, to review the situation early next term.***
- Regarding the guidance issued to Colleges last year by the ESFA and the recommendation that the External Auditors should report directly to Corporation (and where some Colleges were taking the approach to invite the Chair of Governors to attend the External Audit Findings Report presentation at Audit Committee to provide reassurance to Corporation), Dominic Blythe advised that in RSM UK's experience the majority of Colleges were inviting the auditors to the Board Meetings, but some, like BHASVIC, continued to follow the

alternative approach to invite the Chair to Audit Committee and then report to Corporation. Furthermore, it was noted that there was no additional update in the ACOP this year which implies that both of the above options for managing the new requirement were acceptable to the ESFA. However, it was noted that this may change in the future.

At this point the Chair of Governors confirmed that she would advise Corporation that sufficient assurance was provided by the Auditors and by the Audit Committee. **ACTION: Chair of Corporation**

The Committee endorsed the External Report and recommended it to Corporation. **ACTION: Chair of Audit Committee/JHK**

**b) Annual Report and Financial Statements** – noted in support of a)

**c) FE Emerging Issues** – noted.

## **2.2 Regularity Audit Framework Questionnaire**

The document contents were noted by the Committee and that this supported compliance relating to regularity audit and which was shared with the External Auditors.

The document contents were endorsed by the Committee, subject to the minor changes required to page 115 of the papers relating to the final column on the EBR reference (removing the items in square brackets). **ACTION: Jutta Knapp.**

## **2.3 Audit Committee Annual Report for the year ending 31<sup>st</sup> July 2022 (Audit Committee Chair to sign after Corporation has approved), including new requirements arising from the ACOP**

The contents of the Report were considered by the Committee and the following points were recorded:

- It was agreed that an explanatory note should be added to the section on Committee attendance (and also in the Financial Statements), noting the exceptional circumstances in the year regarding quoracy, change in meeting dates and attendance and the action taken to recruit new Audit Committee members, with 2 new Members for this academic year. **ACTION: Jo Davis/Jutta Knapp**
- It was noted that the Audit Committee Annual Report would be signed by the Audit Committee Chair, once approved by Corporation, after which it would be submitted with the Annual Report and Financial Statements and various other documents, to the ESFA by the 31<sup>st</sup> December 2022 deadline.

Thanks were recorded to Jutta Knapp and the Finance Team for their work associated with the External Audit.

At this point, the Chair asked the External Auditors whether there was anything they'd like to raise in the absence of SLT and Dominic Blythe confirmed that there was nothing to report. He recorded thanks to the Finance Team for their assistance during the audit work.

## **2.4 Update on Audit Recommendations**

Jutta Knapp presented the paper to the Committee, the contents of which were noted and also that the auditors would review progress with the recommendations via their follow up audit work next year.

It was also confirmed that all recommended actions were underway, noting that of these, the 2 low priority recommendations had both been implemented.

It was agreed that the External Auditors could remain for the next items and would leave after the Fraud Report.

## **2.5 Internal Audit Reports**

At this point Chris Rising joined meeting via M. Teams

### **a) Cyber Security Health Check**

Chris Rising presented his report to the Committee confirming that the cyber security health check/audit had received limited assurance, with the various reasons recorded in the report, with a number of high and low priority recommendations arising from this.

There were 3 particular high priority areas which were highlighted (page 128 of the meeting papers) relating to arrangements in place around gaining assurance on arrangements for security configurations in respect of malware protection on patch management/anti-virus tools etc, which needed to be effective. It was noted that by moving to the Cloud, the risk inherent in on-premises storage and operations, was reduced.

Another area identified for attention was recognised as a common weakness across the sector, relating to the management of active direct user accounts, where accounts were still active in respect of staff who had left the College, making such accounts redundant and requiring action to resolve this as soon as possible.

Medium priority areas highlighted – included the maintenance of physical and network security matters and the wider risk management assessment of IT, together with an action plan.

It was recorded that all recommendations made by the auditors had been agreed with management and the latter responses as recorded in the document, were noted by the Committee, which detailed the actions taken/to be taken to address the various recommendations. A number of the recommendations were due to be completed by the end of this calendar year with the latest deadline for the other recommendations being scheduled for completion by August 2023 (medium priority recommendations).

The Committee welcomed the audit work completed, recommendations made and management responses.

***The Committee raised the matter of ransom attacks and the preparations needed to protect the College systems, by the College and within the FE sector generally.*** It was noted that a Sixth Form College had already experienced a ransomware attack which had devastated their data, during a critical point of the year (examination results). It was also noted that Academy/Schools had been subject to ransomware attacks. Chris Rising highlighted the need to look at areas of weakness eg patch management controls and passwords – including those which were redundant or not in use, combined with password complexity or regular updates, which may help prevent issues arising. It was suggested that it may be worth considering simulating a critical incident at College to assist Management in future planning for such an attack which SLT agreed to consider and at this point the services offered by JISC (Joint Information Systems Committee – being the not for profit organisation which provides network and IT services and digital resources for FE and HE), were noted too. **ACTION: SLT**

Jacque Punter gave a summary of work undertaken since the audit report was issued, to take forward the recommendations made, with support from Mick McLean, Digital Link Governor. A plan has been developed with Mick McLean's input, with a timeline to achieve this.

The Principal confirmed that the implementation of the MFA (multifactor authentication) amongst Staff, which occurred 2 weeks ago (MFA implementation for Governors to follow shortly), which was seen as a significant mitigating action. Other actions taken forward to date include the introduction of a new anti-virus system and enabling the team to be more familiar and up to speed with the dashboard; all servers have been updated and patched and the IT team are working through the various checks etc. At the Spring Term Committee 2023 an update will be provided of interim progress made in this area to the Resources Committee, before the auditors revisit this area with a follow up audit.

***The Committee sought assurance that the action plan adequately addressed the risks within the IT Risk Register together with an appropriate timeframe.*** In response, the constraints arising from the IT Team working operationally live, making it difficult to complete certain aspects during term time e.g. problem testing back ups easily during term time. SLT has looked at various options of what can do in the best way possible including outsourcing options and costing restrictions. The Committee was reminded that the IT team were not cyber security experts so an upskilling process has been implemented as reported earlier, comprising training and on the job learning, with support from JISC.

The Committee also discussed risk appetite and budget allocations, noting that a level of risk will remain particularly arising from cyber security. In response to a question from Governors, Jacque Punter indicated that if/when the College is affected by a cyber-attack, the College would look at moving away from onsite teaching to remote teaching (providing access to Microsoft via Cloud), whilst the systems are restored, which is likely to take between 1 month to 6 weeks.

The Principal also reported that should a cyber-attack occur during enrolment with an impact on the College's database, it was noted that hard copy enrolment details were retained for all Students and would be used if needed.

Reference was made to penetration testing carried out recently at College to gain some assurance of the College's IT security and 2 matters were identified as urgent and were resolved immediately.

Regarding BYOD for Student, it was reported that JISC were investigating the security arrangements around student BYOD and how a College might still attempt to achieve Cyber Essential certification. The College is working on costings for providing loan machines to disadvantaged Students to enable College-wide BYOD. It was recognised that the College would not be able to afford to provide each Student with a lap top.

Reference was also made to the "green" cyber security audit and that BHASVIC was liaising with Colleges which achieved this high assurance level of audit in this area. Jacquie Punter advised that in the Summer Term the IT Team will separate Staff and Student networks as a means of further mitigating the risk.

Jacquie Punter confirmed that regular updates were provided to SLT and that the Link Digital Governor met with her regularly and would be kept informed of any indication of slippage with the various actions; there will also be reports by exception should there be an increased risk. At this point the Committee agreed that it would be useful if Mick McLean could inform Governors (via the Chair) of any significant slippage or other important IT Risk issues to provide additional assurance bearing in mind that this is the College's highest risk and with limited external assurance via our auditors. The Chair of Governors agreed to contact Mick McLean. **ACTION: Sandra Prail**

The Committee recognises the importance of continued vigilance in this area, noting also that risks may change and develop making on-going regular and timely monitoring by SLT essential and via reporting to Governors. The Committee also discussed whether a more enhanced follow up Cyber Security audit should be provided, particularly in respect of the high priority actions. **ACTION: Jutta Knapp/Internal Auditors**

The Committee was given assurance that an update on progress in this area would be provided at the next Audit Committee, also reiterating that the Audit Report and Action Plan had been discussed in detail at Resources Committee with regular updates on the IT Risk Register and Action Plan, being given. **ACTION: Jacquie Punter/William Baldwin**

Regarding Governors' use of IT, the Committee was informed that Chairs and the Link digital Governor would be meeting next week to review this, with the intention of recommending that all Governors only use their College e mail addresses for all College business in future, and will also discuss using their own devices. At this point reference was made to earlier discussions at the meeting, regarding the MFA implementation for Governors. **ACTION: Governors**

Following a suggestion by the Committee regarding mitigating actions being taken, Jacquie Punter agreed that they were planning to clearly formalise assessments of actual impact in the most likely areas/scenario, combined with generating back up plans, which would provide useful management information, with additional guidance and input provided by JISC. **ACTION: Jacquie Punter/William Baldwin**

## **b) Governance**

Chris Rising provided the following oral update to the Committee:

- Audit work in this area has been completed and a de-brief meeting will be scheduled in the next week.
- Outcome from the audit work is positive with no significant weaknesses in governance processes and with suggestions regarding some further enhancement of controls
- The auditors were pleased to see the processes established and in place and recognised good practice embedded within the College, highlighted for example how the whole process of good governance is integrated such as the escalation of the right issues being considered at the appropriate committee/s in a timing manner, and also engaging with Governors effectively with skills, training and support.
- The internal audit report will be presented to the March 2023 Audit Committee but Chris Rising agreed to circulate this via the Clerk as soon as the final draft has been written. Any questions arising from this before the next Audit Committee, may be submitted to Chris Rising for his response. It was also noted that the draft document would be required for the planned EBR in the Spring Term. **ACTION: Chris Rising**

## **c) Audit Annual Report**

Chris Rising presented the Report which reflects the internal audit work carried out and summarises the outcomes and recommendations arising from the audit areas covered to date, and the processes which will be followed for follow up audit work. At this point, the Chair asked the Internal Auditor whether there was anything which he'd like to raise in the absence of SLT and Chris Rising confirmed that there was nothing to report. At this point Chris Rising was thanked for his presentation and left the meeting.

At this point, it was resolved to deal with item 4.1 Fraud Report, prior to Risk Register item 2.6, as the External Auditors would leave the meeting after the end of 4.1 – Refer item 4.1 minute below.

## **2.6 Risk Register**

The Risk Register was presented to the Committee and the contents therein, taken as read.

The revisions to the format and presentation were highlighted and welcomed by the Committee (including grey shading in respect of term 3 risks)

The significant risks were highlighted, particularly cyber security, noting the 4 new risks included.

The Committee drew attention to the importance of managing and limiting the number of risks within the Risk Register to ensure that it remains manageable, with a bank of risks being established which once a threshold point has been reached, would be added to the Risk Register. It was also suggested that further improvements could be made to the document perhaps by reviewing risk categorisation. In response it was agreed that this exercise would be best dealt with at the same time as the next Risk Management Policy review due next year, when consideration will also be given by SLT to moving to a 5 point scale and also review whether to remove unlikely high risks. **ACTION: William Baldwin**

Subject to the points made above, the document was recommended to Corporation for approval. **ACTION: William Baldwin**

At this point following a question from the Committee regarding risk and Data Protection, the Principal advised that a catch all risk on the failure to miss statutory guidelines cover this area. Noting that as Data Protection has become more important, consideration will be given to have a separate data protection risk. The Committee was reminded about the GDPR Policy, details of which had also been circulated separately to Governors who had been issued with the policy, guidance, protocols and a Privacy Notice to complete. **ACTION: William Baldwin** The Committee were also informed of the internal processes relating to any data protection breaches, with records held by the DPO lead (CIS Manager) and additional data protection compliance responsibility assigned to the Health and Safety Officer (who will focus upon Staff compliance and training, focused on a cultural improvement in this area). Should reports be necessary ie cases which breach the required threshold, the ICO is informed in line with the ICO guidance.

## **2.7 Risk Assurance Map and Assurance from Committees**

The contents of the paper were taken as read and the assurance provided by each Committee in respect of the key risks for which they have responsibility were accepted by the Committee.

The risk Assurance Map was approved by the Committee and recommended to Corporation for approval. **ACTION: Jutta Knapp**

## **SECTION 3: CONSENT AGENDA**

### **Policies and Other Documents**

#### **3.1 Whistleblowing Policy**

The housekeeping changes were noted to the Policy and recommended to Corporation for approval. **ACTION: William Baldwin**

## **SECTION 4: OTHER MATTERS**

### **4.1 FRAUD REPORT**

Jutta Knapp advised the Committee that there were no significant instances of fraud which had occurred and of which the College was aware, to be reported to the Committee. Regular fraud information updates and guidance were received by the Finance Team who were well-informed and very responsive to attempted fraud instances.

Reference was made to the confidential minute in respect of an instance of Fraud reported at the last meeting – refer confidential minutes June 2022 and Jutta Knapp summarised the case and reported that systems and processes had been reviewed to ensure no future issue in this area.

The External Auditors were invited to meet with the Committee in the absence of SLT, but Dominic Blythe confirmed that there was nothing they wished to raise in the absence of SLT and thanked the Finance Team for their excellent work during the audit period.

At this point the External Auditors were thanked for their work and input at the meeting, after which they left the meeting.

**4.2 ANY OTHER BUSINESS** – None

**4.3 Date of Next Meeting – 16<sup>th</sup> March 2023 at 6.00 p.m. in the Principal’s Office**

**SECTION 5: CONFIDENTIAL BUSINESS**

**5.1 Confidential Minutes from the Last Meeting** – approved and Chair authorised to sign them.

**5.2 Matters Arising** – none.

**5.3 Any Other Business (confidential)** – None.

Louise Pennington

Clerk to the Corporation

.....

**Chair of Audit Committee**

**Dated**.....