

AUDIT COMMITTEE

AGENDA NOTICE

Audit Committee Meeting

Date: Thursday 16th November 2017

Time: 10.00am

Venue: Principal's Office

1.1 Opening of Meeting and Apologies for Absence

1.2 Declarations of Interest

Action: Declare any interests

1.3 Minutes of the last Audit Committee meeting held 6th June 2017

Part 1

Appendix 1.3a

Part 2 Confidential – Principal & External Governors only

Appendix 1.3b

Action: Review and approve

1.4 Matters arising from the minutes:

Action: Note progress on actions

1.5 Review Committee Terms of Reference and Committee Effectiveness

Report by Chair of Audit Committee

Appendix 1.5

Action: Review and approve Terms of Reference, briefly discuss effectiveness of Committee

INTERNAL AUDIT

1.6 Internal Audit Services Reports - June/July 2017

Report by Director of Finance & Resources & RSM

Appendix 1.6

Action: Receive and recommend approval to Board

1.7 Outstanding Internal Audit Action Points

Internal Audit Action Points – June 2017 completed

Appendix 1.7a

Internal Audit Action Points – new actions

Appendix 1.7b

Action: Note

1.8 Internal Audit Annual Report for 2016/17

Report by Director of Finance & Resources & RSM

Appendix 1.8

Action: Receive and recommend approval to Board

1.9 IAS – Performance Review 2016/17 – Confidential

Report by Director of Finance & Resources (restricted to Governors & SMT) Appx 1.9

Action: Review and recommend approval to Board

EXTERNAL AUDIT

1.10 Regularity Self-Assessment Questionnaire

Report by Director of Finance & Resources

Appendix 1.10

Action: Review and recommend approval to Board

1.11 Regularity Audit Report & Financial Statements Audit Management Report

Report by Director of Finance & Resources and Mazars

Appendix 1.11

Action: Receive and recommend approval to Board

AUDIT COMMITTEE

1.12 (Draft) Audit Committee Annual Report for 2016/17 to Corporation & Principal

Led by Chair of Audit/Clerk

Appendix 1.12

Action: Review and recommend approval to Board

RISK REGISTER

1.13 Risk Register Update

Report by Director of Finance

Appendix 1.13

Action: Discuss

1.14 Date & Time of the next Audit Committee meeting

Tuesday 6th March 2018 at 12.30pm

DISTRIBUTION LIST

<u>Committee</u>	<u>In attendance</u>
Mr D Hewitt – Chair	Ms V Barrett – Principal
Mrs G Christie	Mr K Sethi – Director of F & R
Mr N Crippa	Mrs C Gillam – Clerk to Corporation
Mr I Graham	Mr T Lo – RSM
Mrs P Hinchliffe	Ms N Wakefield - Mazars
Ms W Megeney	

Farnborough College of Technology

Audit Committee

Minutes of meeting held on Thursday 16th November 2017

Present:

Mr D Hewitt – Chair of Committee

Mrs G Christie

Mr N Crippa

Mr I Graham (*left during item 1.13*)

Mrs P Hinchliffe (*not for item 1.3b*)

Ms W Megeney

In Attendance:

Ms V Barrett – Principal

Mr K Sethi – Director of Finance & Resources (*not for item 1.3b*)

Ms N Wakefield – Mazars (*not for items 1.3b or 1.9*)

Mr T Lo – RSM (*not for items 1.3b or 1.9*)

Mr R Rendel

Mrs C Gillam – Clerk to the Corporation

Quorate: Yes

The meeting opened at 10.15am

1.1/17.18 Opening of Meeting and Apologies for Absence

No apologies were received. The Committee noted the attendance of Mr Rendel as an observer and welcomed the Director of Finance & Resources and Mr Lo from RSM to their first meeting.

1.2/17.18 Declarations of Interest

No declarations of interests were noted in relation to the agenda items.

1.3a/17.18 Minutes of the meeting held 6th June 2017

The Part 1 minutes of the last meeting were accepted as a true and accurate record and were signed by the Chair. The confidential Part 2 minutes were considered separately at the end of the meeting when only the Principal and External Governors were present.

1.4/17.18 Matters arising from the minutes

There was an action arising from the last meeting to report back to the Committee which features from the RSM Board Assurance Toolkit had not been adopted by the College. This would need to be addressed once the approach to redesigning the risk register had been agreed and trialled and would therefore be addressed in a future meeting.

1.5/17.18 Review Committee Terms of Reference and Committee Effectiveness

One amendment to the Committee's Terms of Reference was made correcting item 2viii's reference from the 'SFA' to the 'ESFA'.

When considering the Committee's effectiveness the Committee suggested that at least one additional member with financial or audit qualifications and experience was required. It was noted that one of the new appointments to the Board proposed by Search Committee for consideration at the December Corporation Board meeting was a CIMA qualified accountant and Financial Director and that his appointment to Audit Committee would be recommended.

The Committee had a useful discussion regarding the appropriate balance of financial experts and non-financial experts on an Audit Committee with guidance provided by both the internal

and external auditors present. It was agreed that an Audit Committee composed solely of financial experts was not desirable and that a successful Committee brought a variety of input from across different professional disciplines. Governors commented that they felt that this Committee was not a threatening arena and that they were comfortable asking questions or for clarification of technical issues. The external auditor reflected that in her opinion this Committee worked well with a good level of challenge and questioning and was not dominated by any one individual. Governors agreed that the Committee's effectiveness was assisted by the annual training provided by the internal auditors at each spring meeting.

Action: Recommend ToR amendment to the Board.

1.6/17.18 Internal Audit Services Reports – June/July 2017

The Committee received the reports on the Learner Journey and Learner Number Systems which had been published during the summer.

Learner Journey

The internal auditor explained that the audit of the Learner Journey looked at the systems and processes underpinning students' experience of College in their first six weeks. An internal audit opinion of substantial assurance had been given showing that systems, which included new automated systems, were working well. There was only one management action identified and this was graded as a low priority. This concerned a small sample of 'non-standard' learner application forms which had not been uploaded to the electronic central record. The Committee queried why this action was identified as low priority. It was explained that all students had been interviewed and offers made but the process of uploading to the central system had not been completed for a small sample at the time of the internal audit and thus was not a substantial error but rather a timing issue. The Staff Governors explained in response to External Governors' questions why some applications were designated as 'non-standard' (such as the learner having an educational or healthcare plan or applying for multiple courses) and the process of review of such applications by the Programme Manager which often led to such applications being changed to 'standard'. The Principal further explained that the College had received a full ESFA audit in September which had thoroughly checked the College's compliance with its funding contract. That audit was clean, no issues with the central record systems were identified and a copy of that ESFA audit report would be circulated to the Committee.

In response to a question from a Governor concerning the scope of the Learner Journey audit it was noted that the quality of the student journey and how students felt about their initial weeks at College did not fall within the scope of the audit. However, this was an important area to consider and linked to some points which had arisen in the Board's recent self-assessment. The Principal agreed that the findings of the student survey concerning induction would be reported to Curriculum & Standards Committee.

Learner Number Systems

The internal auditor reported that for this type of audit one of three opinions could be given: that there were no errors (which very few Colleges obtained); that there were a number of exceptions (which was the opinion given here and most common to FE Colleges); that no opinion could be given. One medium priority and two low priority actions had been identified and no significant funding errors were identified. The Committee discussed the medium priority action which concerned evidence for work placement for three learners. The Principal explained that again this reflected a timing issue for the internal audit and that the ESFA audit had looked at this in September and reported no issues. The College was responsible for planning work experience and sometimes original placements fell through and had to be re-organised. The Principal observed that organising work placements was an onerous task for lecturing staff and thus she had sought a tender from a specialist external company who could lead on this in the future.

Action: The Committee accepted both Internal Audit Reports for June/July 2017. The reports would be presented at the December 2017 Board meeting.

1.7/17.18 Outstanding Internal Audit Action Points

a) Internal Audit Action Points – June 2017 completed but to be confirmed by IA

The Director of Finance explained that the one outstanding action concerning key financial controls and review of the coding structure had been completed but was awaiting verification from internal audit.

b) Outstanding Internal Audit Action Points – November 2017

The Director of Finance & Resources reported that the actions from the reports considered under agenda item 1.6 had been included. All actions had been completed but were subject to internal audit verification.

1.8/17.18 Internal Audit Annual Report for 2016/17

Mr Lo presented the summary of internal audit work conducted in 2016/17 and noted that the highest level of internal audit opinion had been given – that the organisation had ‘an adequate and effective framework for risk management, governance and internal control’. In addition the College had shown good progress in follow up on actions from the previous years’ internal audit findings. The Committee noted that the action arising from the audit of risk management to assign additional scrutiny of certain high rated risks to particular Committees had been a particularly helpful recommendation which had worked well in practice.

Action: The Committee accepted the Internal Audit Report for 2016/17. The report would be presented at the December Board meeting.

The agenda item order was re-arranged as follows.

1.10/17.18 Regularity Self Assessment Questionnaire

The Director of Finance & Resources explained that it was a regulatory requirement for the College to self assess using this questionnaire which sat alongside the financial statements. The Committee discussed on page 1 of the questionnaire the fact that the College had been subject to SFA/ESFA funding audits in 2014, 2015 and 2017 with no significant issues raised. The Committee suggested the following amendments to the text in the Questionnaire:

- page 2 ‘Property Strategy’ and ‘asset register’ be added as evidence
- page 3 the first bullet under College Response be removed

Action: The Committee accepted the Regularity Self Assessment Questionnaire which would now be signed by the College’s Accounting Officer and Chair of Corporation. The Questionnaire would be presented at the December 2017 Board meeting.

1.11/17.18 Regularity Audit Report & Financial Statements Audit Management Report

Regularity Audit Report

Ms Wakefield explained that Mazars had held a very good clearance meeting with the College and were preparing to issue unqualified opinions. She noted that she had been pleased to observe the smooth transition after the change in personnel at the College. She explained the different types of significant risks contained in the Audit Completion Report and which were standard and which were FE sector specific. She explained the key areas of management judgement and the Committee spent time discussing FRS 102 concerning pension valuations. The audit team had queried there the rate of increase in salaries of 1.9% which was below the assumption of increases in CPI of 2%. However, she reported that even if the CPI figure was taken this would not result in a material difference and also that the College’s own data supported the rate of increase in salaries as being below CPI. Thus the auditors were happy to accept the use of the 1.9% figure. Ms Wakefield drew the Committee’s attention to page 8 of the Report and that there were no internal control recommendations. This was not common in the sector and thus was a very good reflection upon the College and should give the Audit Committee reassurance in the College’s internal controls. On page 9 she explained that the auditors had discussed with the College the timing of the recognition of a termination payment. Accounting standards require that the expenditure should be recognised in the year the

agreement was signed (2016/17). The College had included the expenditure in the 2017/18 accounts as this was the year that the termination took effect. The Principal said that in future any such termination agreements would be signed in the year during which they were to be enacted. Ms Wakefield stressed that this unadjusted item was below Mazar's materiality level and was thus judged immaterial and that additionally, even if the amount had been included in the 2016/17 accounts it would not have affected the College's financial health score. In summary Ms Wakefield observed that having only one unadjusted and one adjusted item (which concerned the presentation of accrued income) was a testament to the College and thanked the College's accountant and his team.

Financial Statements

The Chair of Audit Committee reminded the Committee that the financial statements were included for information, to assist the Committee's judgements concerning internal control and governance. The recommendation to the Board regarding approval of the financial statements was the responsibility of the Finance & General Purposes Committee. He therefore asked the Committee mainly to consider the narrative parts of the statements. The Committee recommended the following changes to the text:

- page 3 the wording of the 'Public Benefit' statement could be improved and expanded upon. It was suggested that phrasing taken from the Principal's speech at the recent UCF opening could be adopted here.
- page 3 in the final sentence replace 'the bottom line' with 'financial strength'
- page 6 under 'student achievements' include a reference to jobs and that the College is in the top 10% for student progression
- page 9 include in the bullet points 'the University of Surrey', 'local schools' and 'armed forces' and expand the sentence underneath the bullet points
- page 9 in the penultimate sentence on 'Equality & Diversity' the characteristics should be taken from the Equality Act 2010 as the current list is not correct
- page 11 include in the text concerning Board attendance the following lines: 'This was an exceptional year for the Board with additional meetings to consider the Area Based Review process and to develop a new College Strategic Plan and Property Strategy. Governor recruitment was also frozen during the year due to the Area Based Review which meant a smaller team of existing Governors had to cover these meetings.'
- page 13 insert into the second sentence after 'which': 'are reviewed annually and'
- page 14 look again at the wording of the sections on 'Internal Control' and the repetition of managing and not eliminating risk. Can this be rephrased or is this formal wording which cannot be changed?
- page 14 add to the bullets at the foot of the page 'periodic review of the Instrument & Articles of Government and the Corporation's Standing Orders'
- page 18 and throughout the document refer to 'Governors' instead of 'Members'

Action: Recommend Regularity Audit Report and Financial Statements Audit Management Report to the December Board.

1.12/17.18 Draft Annual Audit Committee Report for 2016/17 to the Corporation and Principal

The Chair of Audit Committee explained that he had already commented upon an earlier draft prepared by the Clerk and thus his amendments were incorporated into this draft copy. The Committee suggested that the sentence under section 6 on page 4 be amended to read: 'The Audit Committee considers that it has discharged its responsibilities effectively...'.

Action: Recommend the Audit Committee Report, subject to the amendment above, to the December Board.

1.13/17.18 Risk Register Update

The Chair of Audit Committee reminded the Committee that for some time the Committee had expressed a view to the College Executive that the risk scoring mechanism was not sufficiently

sensitive to reflect management actions taken to mitigate the probability and effect of risks. He thanked the Principal for her response to this observation which had resulted in this paper which presented a choice of more sophisticated scoring systems drawing upon best practice in the sector and advice from the internal auditors RSM. He acknowledged that it was a complicated subject to absorb. Committee members observed that a balance needed to be struck between sophistication and simplicity. It would be good to have a more granular and meaningful scoring system but it should not become overly complicated.

Mr Lo explained the RSM model and the risk matrix presented as paper 6.1. The RSM model recognised under 'impact' the wide variety of potential impacts other than just financial and reputation and the impact matrix could be customised to best suit the College's purposes. For 'likelihood' the RSM model quantified the likelihood by frequency as well as by effect and gave a score using pre-allocated numbers and not a simple multiplication of both variables. Thus to take the example of a rare but catastrophic risk such as an aeroplane crash on site it would have an assigned risk score of 15 and not 5 which would be the multiplication score. This would ensure that such a rare possibility carried a higher risk score and was thus included on risk register than if the score were calculated by simple multiplication. The Committee agreed that whilst such outliers needed to be included on the risk register it preferred the simplicity of using multiplication to arrive at a risk score rather than having to refer back every time to a grid of pre-assigned scores every time a risk was calculated.

Mr Graham left the meeting.

It was agreed that the Executive should adopt a system that they could work with and found helpful. A trial period of a new system might also be beneficial. The Committee therefore thanked the Executive for the range of options which had been presented and agreed that the Executive would bring their preferred trial format for the risk register to the next meeting.

Action: The Executive to trial their preferred approach to the risk register and bring the new format to the next meeting.

1.14/17.18 Date and time of next Audit Committee meeting

Tuesday 6th March 2018 12.30 – 2pm.

Mr Lo and Ms Wakefield left the meeting.

1.9/17.18 IAS Performance Review 2016/17

This item was a confidential minute.

Action: The Committee accepted the Performance Review 2016/17 subject to the suggested revision. The review would be presented at the December Board meeting.

Mrs Hinchliffe and Mr Sethi left the meeting.

1.3b/17.18 Confidential Part 2 minutes of the meeting held 6th June 2017

This item was a confidential minute.

The Part 2 minutes of the last meeting were accepted as a true and accurate record and were signed by the Chair.

The meeting closed at 12.23pm.

Minutes agreed as being a true and accurate record by the Chair.

Signed: _____

Dated: _____

Summary of action points

Item	Action	Responsibility
Review Terms of Reference	Recommend amendment to Terms of Reference to Board	Chair Audit
IAS Reports June/July 2017	Circulate ESFA audit report to Committee	Clerk
IAS Reports June/July 2017	Check that the student survey concerning induction is reported to Curriculum & Standards Committee	Clerk
IAS Reports June/July 2017	Present both reports to the December 2017 Board meeting	Chair Audit
Internal Audit Report for 2016/17	Present the Internal Audit Report for 2016/17 to the December Board meeting	Chair Audit
Regularity Self Assessment Questionnaire	Recommend to Board the Regularity Self Assessment Questionnaire	Chair Audit
Regularity Audit Report and Financial Statements	Recommend Regularity Audit Report and Financial Statements Audit Management Report to the December Board.	Chair Audit
Draft Annual Audit Committee Report	Recommend the amended Report to the December Board.	Chair Audit
Risk Register	The Executive to trial their preferred approach to the risk register and bring the new format to the next meeting.	Principal
IAS Performance Review 2016/17	Present the Performance Review 2016/17 to the December Board meeting.	Chair Audit