

## AUDIT COMMITTEE

### AGENDA NOTICE

<p style="text-align: center;"><b>Audit Committee Meeting</b> <b>Date:</b> Tuesday 6<sup>th</sup> June 2017 <b>Time:</b> 10.00am <b>Venue:</b> Meeting Room, University Centre Farnborough</p>
--

- 3.1 Opening of Meeting and Apologies for Absence**
- 3.2 Declarations of Interest**
- 3.3 Minutes of the last Audit Committee meeting held 2<sup>nd</sup> March 2017**
  - Part 1 Appendix 3.3a
  - Part 2 Confidential – Principal & External Governors only Appendix 3.3b
- 3.4 Matters arising from the minutes**
- 3.5 Election of Deputy Committee Chair**
  - Report by Chair of Audit Committee Appendix 3.5
- 3.6 Post-16 Audit Code of Practice**
  - Report by Director of Finance Appendix 3.6

### INTERNAL AUDIT

- 3.7 Internal Audit Services Reports April/May 2017**
  - IAS Report and College Response – Follow up Appendix 3.7a
  - IAS Report and College Response – Key Financial Controls Appendix 3.7b
  - IAS Report and College Response – Learner Journey Appendix 3.7c
  - Verbal report on Learner Number Systems
- 3.8 Outstanding Internal Audit Action Points**
  - Report by Director of Finance Appendix 3.8
- 3.9 Draft Strategic Internal Audit Plan for 2017 - 2019**
  - Report by Director of Finance Appendix 3.9

### EXTERNAL AUDIT

- 3.10 External Auditors 2016/17 Accounts Audit Plan**
  - Report by Director of Finance & Mazars Appendix 3.10

### RISK REGISTER & POLICY UPDATES

- 3.11 Risk Management Policy Update**
  - Report by Director of Finance Appendix 3.11
- 3.12 Risk Register Update**
  - Report by Director of Finance Appendix 3.12
- 3.13 Date & Time of the next Audit Committee meeting**
  - Thursday 9<sup>th</sup> November 2017 at 10am – to be confirmed at July Corporation Board*

DISTRIBUTION LIST

Committee

Mr D Hewitt – Chair  
Mrs G Christie  
Mr N Crippa  
Mr I Graham  
Mrs P Hinchliffe  
Ms W Megeney  
Dr F Oduneye – Co-opted member

In attendance

Ms V Barrett – Principal  
Mrs J Bratt – Director of Finance  
Mr I Wolloff- Vice Principal  
Mrs J Milburn – Vice Principal  
Mrs C Gillam – Clerk to Corporation  
Mr M Cheetham – RSM  
Ms C Bushell – Mazars  
Ms N Wakefield - Mazars

## Farnborough College of Technology

### Audit Committee

Minutes of meeting held on Tuesday 6<sup>th</sup> June 2017

Present:

Mr D Hewitt – Chair of Committee  
Mrs G Christie  
Mr N Crippa (left during item 3.9)  
Mr I Graham (*not for AOB*)  
Mrs P Hinchliffe (*not for AOB*)  
Ms W Megeney

In Attendance:

Ms V Barrett – Principal  
Mrs J Bratt – Director of Finance (*not for AOB*)  
Ms C Bushell – Mazars (*not for AOB*)  
Mrs J Milburn – Vice Principal Curriculum & Learners (*not for AOB*)  
Ms L Raynes – RSM (*not for AOB*)  
Mr I Wolloff – Vice Principal Quality & HE (*not for AOB*)  
Mrs C Gillam – Clerk to the Corporation

Quorate: Yes

*The meeting opened at 10.06am*

#### **3.1/16.17 Opening of Meeting and Apologies for Absence**

---

No apologies were received. It was noted that a confidential item would be raised under any other business.

#### **3.2/16.17 Declarations of Interest**

---

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

#### **3.3/16.17 Minutes of the meeting held 2<sup>nd</sup> March 2017**

---

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

#### **3.4/16.17 Matters arising from the minutes**

---

- The Committee requested that a report be presented at the next meeting regarding the RSM Board Assurance Toolkit which had been circulated to members. It would be helpful to understand which features from the Toolkit had not been adopted by the College due to their not being relevant to the College's risk profile or the way in which the College operates.
- It was noted that assigning high levels risks to review to Curriculum & Standards Committee and Finance & General Purposes Committee had worked well. Although the intention had been that this would be an annual review some flexibility would be required to enable both Committees to monitor high level risks as they saw fit.

#### **3.5/16.17 Election of Deputy Committee Chair**

---

The Deputy Committee Chair posts were designed to create a wider base of chairing experience across the membership of the Board. However, as no volunteer came forward on this occasion it was agreed that the post for Deputy Chair of Audit Committee would remain vacant for now.

### **3.6/16.17 Post-16 Audit Code of Practice**

---

The Committee received the Post-16 Audit Code of Practice, noting that it had replaced the JACOP. One consequence of the new Code would be that new engagement letters for the External Auditors would be required and these were appended to item 3.10 as Appendix D.

### **3.7/16.17 Internal Audit Services Reports**

---

#### **ai) IAS Report and College Response- Follow up - April 2017**

The Committee noted good progress made with outstanding actions with only 1 low priority action not yet completed.

#### **aii) IAS Report and College Response- Key Financial Controls - May 2017**

The audit of key financial controls resulted in an internal audit opinion of substantial assurance. Three low priority management actions were identified.

**Action:** The Committee accepted the Internal Audit Report for May 2017. The report would be presented at the July 2017 Board meeting.

#### **b) IAS Progress Report - June 2017**

Progress against the internal audit plan for 2016/17 was reported. Of the agreed schedule of 7 assignments 5 final reports have been issued with the Learner Journey report in draft format and the Learner Number Systems report in production.

The Committee received the RSM general client briefings included within the Progress Report and discussed with SMT the College's vulnerability to cyber attack. It was noted that the College had not been involved in the recent ransomware attacks, and maintained a comprehensive back up system. The College was working with the IT specialists Modulo 2 to maintain constant vigilance against security breaches. The Committee also noted that new General Data Protection Regulations (GDPR) would come into effect from May 2018 and that a presentation on the implications for the College might be useful at a future Board meeting.

### **3.8/16.17 Outstanding Internal Audit Action Points – June 2017**

---

The Committee noted that there was only 1 action point outstanding.

*The agenda item order was re-arranged as follows.*

### **3.12/16.17 Risk Register Update**

---

The Director of Finance introduced the latest update of the risk register received by the Committee at each meeting. The arrow in the 'change' column under 'Residual Risk' showed if there was a change from the previous version of the risk register. Following SMT review a residual risk score for 'quantity and condition of estate' had had its residual risk increased and following F&GP Committee's scrutiny of risks in their area the risk description for 'future financial viability' had been revised and the residual risk score reduced.

The College uses a 1/2/3 scale to score both the impact and probability of risks. Following discussion it was agreed that some risks, despite all the control measures taken to mitigate them, might always retain the highest impact score due to the nature of the particular risk. But it was felt that the current 1-3 scale might be too narrow to reflect the effectiveness of management actions taken to mitigate the probability of some risks. The Committee requested that SMT consider increasing the scale when assessing probability from 1-3 to 1-4 and report back to the next meeting with their conclusion.

The Committee discussed each of the risks identified as having a residual score greater than 5 and the control measures being taken to mitigate.

**Action:** The Committee recommended that a summary of the highest risks from the risk register be presented to the July Board meeting for information.

### **3.9/16.17 Draft Strategic Internal Audit Plan 2017-19**

The Director of Finance reminded the Committee that the internal auditors produced an initial three year plan covering a range of areas based upon the College's risk register and the risks to the sector as a whole. Colleges were no longer required to obtain an internal audit opinion and could use other methods of assurance from non-auditor sources. However, most colleges had retained an internal audit opinion and in 2015 the Corporation Board had agreed to retain an internal audit opinion when the internal auditors were appointed.

Recently the College had identified two potential areas of assurance to address key risks to the College. The first was an Ofsted mock inspection to give assurance to the Corporation of the likelihood of retention of this key rating and the second was an optimisation of government funding exercise to ensure that the College was making best use of funding opportunities. The College had suggested replacing three proposed internal audit areas (apprenticeships, staff utilisation and learner number systems) with these two areas of assurance for one year only. It was proposed that appropriate assurance providers be used to provide these assurances.

The internal auditors had clarified that in order to provide the College with an internal audit opinion they would need to audit two core assurance areas (governance and risk management), together with the College's controls compliance (key financial controls and learner number systems), and another 2 or 3 wide ranging areas of activity. Therefore if the College were to replace the three proposed internal audit areas mentioned above with an alternative assurance focus on Ofsted and optimising funding the internal auditors would be unable to provide the Corporation with an internal audit opinion. Audit work could still be carried out on the areas commissioned, resulting in factual reporting and suggested actions but no audit opinion or judgement would be offered.

The Principal noted that the College's last Ofsted inspection was in 2011. The 2016 SAR had been reviewed by an Ofsted inspector who concurred with the College's 'outstanding' rating but she believed it vital for the Corporation to take further steps to ensure that quality was being maintained at the highest level. Likewise optimising government funding was essential as the College sought to maintain its 'outstanding' financial health at a time of declining demographics and reductions in funding.

Audit Committee scrutinised each area of the proposed internal audit plan for 2017/18 and noted that some items were not priority areas of concern for the College. For example, with regards to learner number systems, the College had been the subject of an SFA external audit for two consecutive years and then the internal auditors had audited the area for the past two years with very minor recommendations. So the evidence was that for the last four years the area had been thoroughly scrutinised, with few recommendations, and had had no changes to personnel. It therefore appeared to be a low risk area for this year for FCoT. Audit Committee noted that the proposed Ofsted 'mock' inspection would have a wide ranging rigorous cross College focus. Rather than spend money in obtaining assurance in relatively low risk areas Audit Committee was keen to invest budgetary resources in the mock Ofsted assurance work. The mock Ofsted might also produce areas for focus for future internal audit review in subsequent years. The funding optimisation work appeared to meet the Committee's responsibility to ensure best value for the College and it was agreed that both this and the mock Ofsted would address two of the College's highest risks. The Committee agreed that rather than recommend internally auditing low risk areas in order to get an audit opinion it would rather for one year target assurance on the areas of highest risk to the College. It was therefore agreed that the Committee would recommend to the Board a reduced programme of internal audit work for 2017/18, resulting in factual reporting and no internal audit opinion, and utilising the budget saved to finance the mock Ofsted and funding optimisation exercises.

*Mr Crippa left the meeting.*

**Action:** Audit Committee recommended the following:

- remove from the 2017/18 internal audit plan:  
apprenticeships, risk management, learner number systems
- retain in the 2017/18 internal audit plan:  
staff utilisation, governance, key financial controls, follow up actions
- seek other forms of assurance for 2017/18:  
mock Ofsted, optimisation of government funding

The consequence of these recommendations would be to dispense with an internal audit opinion for 2017/18.

A report detailing these recommendations would be presented at the July Board meeting.

It was also agreed that rather than focusing the internal audit governance review upon compliance with the non-mandatory aspects of the Code of Good Governance a wider review of governance would be undertaken. It was agreed that the decision to not require an internal audit opinion would be reviewed next year.

### **3.10/16.17 External Auditors 2016/17 Accounts Audit Plan**

---

Ms Bushell noted that a similar process was proposed to last year. Following the new Post-16 Audit Code of Practice discussed in item 3.6 a revised draft engagement letter was appended but there was no change to the substance or scope of the external audit work. The Audit Committee observed that the last two external audits had proceeded smoothly and that there were no changes to the Mazars auditing team.

**Action:** The Committee accepted the External Auditors' 2016/17 Accounts Audit Plan. The Plan would be presented at the July Board meeting.

### **3.11/16.17 Risk Management Policy Update**

---

The Committee agreed that the policy, which was without change, continued to be fit for purpose.

**Action:** The Committee approved the Risk Management Policy. The Policy would be presented at the July 2017 Board meeting.

The Committee asked if it would be possible at a future meeting to receive a presentation on a department risk register in order to understand how the register was compiled at a departmental level. The Principal agreed to discuss the request with SMT.

### **3.13/16.17 Date and time of next Audit Committee meeting**

---

Thursday 9<sup>th</sup> November 2017 – to be confirmed.

*All members left except for the Principal, External Governors and the Clerk. The meeting remained quorate.*

### **Any Other Business**

---

This item was recorded as a confidential minute.

*The meeting closed at 1.28pm.*

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

Signed: .....

Dated: .....

**Summary of action points**

<b>Item</b>	<b>Action</b>	<b>Responsibility</b>
Matters Arising	Report on RSM Board Assurance Toolkit for next meeting – features not adopted	Dir. of Finance
IAS May 2017 Report	Present the IAS Report for May 2017 to the July Board	Chair Audit
IAS Progress Report	Consider future presentation to the Corporation Board on implications of GDPR	Principal
Risk Register Update	SMT to consider increasing the scale for measuring probability of risks and report back to next Committee meeting	Principal
Risk Register Update	Present high risk summary to July Corporation Board	Chair Audit
Draft strategic Internal Audit Plan 2017-19	Recommend to Board a reduced programme of internal audit work for 2017/18 which would result in no internal audit opinion for one year and two additional forms of assurance covering high risk areas	Chair Audit
External Auditors 2016/17 Accounts Audit Plan	Recommend to the Board the External Auditors' 2016/17 Accounts Audit Plan.	Chair Audit
External Auditors 2016/17 Accounts Audit Plan	SMT to consider a presentation on a department risk register to a future Audit Committee meeting.	Principal
Risk Management Policy Update	Recommend approval of the Risk Management Policy to the Board	Chair Audit