

AUDIT COMMITTEE

AGENDA NOTICE

Audit Committee Meeting
Date: Tuesday 20th November 2018
Time: 7.30am
Venue: Corporate Board Room

- 1.1 Opening of Meeting and Apologies for Absence**
- 1.2 Declarations of Interest**
Action: Declare any interests
- 1.10 Regularity Audit Report & Financial Statements Audit Management Report**
Report by Director of Finance & Resources and Mazars Appendix 1.10
Action: Receive and recommend approval to Board
- 1.3 Minutes of the last Audit Committee meeting held 14th June 2018**
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:**
Chair of Audit Committee Appendix 1.4
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 Outstanding Internal Audit Action Points**
Report by Director of Finance & Resources & RSM Appendix 1.6
Action: Note for information
- 1.7 Internal Audit Annual Summary 2017/18**
Report by Director of Finance & Resources & RSM Appendix 1.7
Action: Note for information
- 1.8 Draft Strategic Internal Audit Plan for 2018 - 2019**
Report by Director of Finance & Resources & RSM Appendix 1.8
Action: Review and recommend approval to Board

EXTERNAL AUDIT

- 1.9 Regularity Self-Assessment Questionnaire**
Report by Director of Finance & Resources Appendix 1.9
Action: Review and recommend approval to Board

AUDIT COMMITTEE

- 1.11 (Draft) Audit Committee Annual Report for 2017/18 to Corporation & Principal**
Led by Chair of Audit/Clerk Appendix 1.11
Action: Review and recommend approval to Board

RISK REGISTER

- 1.12 Risk Register Update**
Report by Director of Finance Appendix 1.12
Action: Discuss

(Internal Audit to leave the meeting)

CONFIDENTIAL ITEMS

- 1.13 IAS – Performance Review 2017/18 – Confidential (restricted to Governors & SMT)**
Discussion led by Director of Finance & Resources

Action: Discuss and recommend to Board

(SMT to leave the meeting)

- 1.14 Confidential Matters of Report by the Principal (restricted to External Governors & the Principal)**

Report by the Principal

Appx 1.14

Action: Discuss

- 1.15 Date & Time of the next Audit Committee meeting**

Tuesday 19th March 2019 at 8am

DISTRIBUTION LIST

Committee

Mr D Hewitt – Chair
Mrs S Chapman
Mrs G Christie
Mr N Crippa
Mr J Francis
Ms W Megeney

In attendance

Ms V Barrett – Principal
Financial Consultant/Director of F & R
Mrs C Gillam – Clerk to Corporation
Ms L Raynes – RSM
Ms C Bushell - Mazars

Farnborough College of Technology

Audit Committee

Minutes of meeting held on Tuesday 20th November 2018

Present:

Mr D Hewitt – Chair of Committee (left after item 1.10)
Mrs S Chapman (arrived during item 1.10)
Mrs G Christie
Mr N Crippa (left after item 1.9)
Mr J Francis - Chair of Committee (Chair from item 1.3)
Ms W Megeney (arrived during item 1.10)

In Attendance:

Ms C Bushell – Mazars (left after item 1.12)
Mr J Grindell – Financial Consultant - (left after item 1.13)
Ms L Raynes – RSM (left after item 1.12)
Mrs C Gillam – Clerk to the Corporation

Quorate: Yes

The meeting opened at 7.35am

1.1/18.19 Opening of Meeting and Apologies for Absence

Apologies were received and accepted from the Principal. Mrs Chapman and Ms Megeney would be joining the meeting later. Mr Hewitt announced that he would be retiring as a Governor following the December Board meeting and proposed that Mr Francis replace him as Committee Chair. The Committee agreed and thanked Mr Hewitt for his work as Committee Chair and agreed that he would be much missed. A Deputy Committee Chair would need to be elected but it was decided that this would be returned to later in the meeting when the other members had arrived. This was completed at the close of item 1.10 and Mrs Chapman was elected as Deputy Chair. It was agreed that the Clerk would investigate training opportunities for the new Chair and Vice-Chair as well as for Committee members in general.

1.2/18.19 Declarations of Interest

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

1.10/18.19 Regularity Audit Report & Financial Statements Audit Management Report

Regularity Audit Report

Ms Bushell introduced the Regularity Audit Report and noted that the field work was almost complete barring a couple of minor items. She thanked Mr Grindell and the College's Finance team for their assistance during the audit. Mazars anticipated issuing an unqualified opinion without modification.

One matter discussed with management had been adjusted in the final accounts and this was ESFA clawback provision of £100k. The accruals included £100k provision for ESFA clawback and £12k provision for HEFCE clawback, both of which were at the same value as in the previous year. Having discussed these accruals with management it was agreed that no clawback was expected from HEFCE or the ESFA. An adjustment was made to reverse the £100k ESFA accrual but the £12k HEFCE accrual remained unadjusted on the grounds of immateriality.

Ms Megeney joined the meeting

Other items discussed with management were a portion of summer property works on E block which fell within year end and were calculated to represent a value of £102k, and the

accounting treatment of the College's property on Albert Road. Both were unadjusted. The Committee asked for more detail regarding the Albert Road issue. Ms Bushell explained that the College had recorded the property's book value on the balance sheet. The property had previously been used as temporary accommodation for College staff but was currently being rented out at a market rate whilst the College considered what to do with the property. Mazars had suggested classifying it as an investment property and recording it at its fair value (i.e. its current value) on the balance sheet. The difference between the fair value and net book value was approximately £163k which was not material to the financial statements. Management had explained that the rental of the property was a short term holding position to generate income whilst a decision was taken as to the future use of the property, and Mazars were content. Mr Grindell explained that the College would make a strategic decision as to the use of Albert Road and then the future appropriate accounting treatment of the asset would follow from that. The Committee agreed but noted that the ESFA clawback of £100k was material in the context of the College's profitability, whilst the difference in valuations of £163k for Albert Road was not material in the context of the balance sheet where College fixed assets were over £35m. Ms Bushell explained that materiality levels were generally set as a percentage of income for not for profit organisations but other considerations would also be taken into account such as the College's outstanding financial health. The Committee agreed that it would be helpful to have a note from Mazars at the next meeting explaining the principles of materiality to better inform the Committee's understanding. Ms Bushell was thanked for an excellent report.

Action: Mazars to prepare a note on the principles of materiality for the March 2019 meeting.

Financial Statements

The Chair reminded the Committee that it was the responsibility of the Finance & General Purposes Committee to consider in detail the financial statements and to make a recommendation to the Board regarding their approval. However, the narrative pages of the financial statements were also reviewed by Audit Committee. The Committee recommended the following changes to the text:

- page 1 for consistency throughout the document change 'Mrs' to 'Ms Barrett'
- page 7 include under 'Principle Risks' reference to F&GP and Curriculum & Standards Committees monitoring their highest rated risks
- page 34 include within the reference to Albert Road that the property is being let to tenants 'at a market rent'

It was suggested that in future context be added to the numbers at the foot of page 6 by including the previous year's figures and that the salutations be removed from the tables on pages 11/12.

Mrs Chapman joined the meeting.

Mr Grindell gave the Committee an overview of the finances noting that once pension adjustments had been added back the College had made £0.5m surplus which was an excellent performance running contrary to many in the FE sector this year. Overall the financial statements reflected a very healthy position for the College. The Committee congratulated Mr Grindell on an excellent document.

Action: Committee Chair to recommend the Regularity Audit Report to the December Board.

Mr Hewitt left the meeting and Mr Francis took over as Chair.

1.3a/18.19 Part 1 minutes of the meeting held 14th June 2018

The Part 1 minutes of the last meeting were accepted as a true and accurate record and were signed by the Chair.

1.3b/18.19 Confidential Part 2 minutes of the meeting held 14th June 2018

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

1.4/18.19 Matters arising from the minutes

The Committee discussed progress with the actions from previous meetings. It was noted that the presentation on a department risk register had had to be postponed until the March 2019 meeting but once this had been completed three outstanding actions would be cleared. The Committee agreed that it would be helpful if the presentation could be from the Engineering department. Mr Grindell updated the Committee on the insurance situation regarding the January power outage announcing that the loss adjuster had this month confirmed to the College that the cost of the interim generator would be covered by the College's insurance. The College was continuing to work on back up strategies for any future power cut by having access to a power generator, and by having failover strategies to switch between Aldershot and Farnborough servers. This was part of the College's wider disaster recovery/business continuity planning.

1.5/18.19 Review Committee Terms of Reference and Committee Effectiveness

The Committee reviewed its Terms of Reference and considered the Committee's effectiveness. No actions were identified to improve effectiveness and the only amendment to the Terms of Reference was a new item 2xviii to state a requirement to review the Terms of Reference annually. The Committee checked its compliance with the amended Terms of Reference and was satisfied.

Action: Committee Chair to recommend ToR amendment to the Board.

1.6/18.19 Outstanding Internal Audit Action Points – November 2018

The Committee received the report summarising progress on the implementation of internal audit action points. The majority had been completed whilst a number were in hand. Mr Grindell advised the Committee that with regards to action 1.2 concerning staff 'caseload hours' this would be reported to Governors via the Principal's Report to the Corporation Board.

1.7/18.19 Internal Audit Annual Summary 2017/18

Mr Grindell reminded the Committee that as a smaller programme of internal audit work had been agreed for 2017/18 with no internal audit opinion the Committee was receiving a summary of the works undertaken rather than an internal audit annual report. The Committee agreed that reducing the scope of internal audit for one year had proved useful as it enabled the College to fund its Curriculum Review which had proved extremely valuable.

1.8/18.19 Draft Strategic Internal Audit Plan for 2018/19

Following on from the previous item Mr Grindell reiterated that the savings which had resulted from reducing the scope of internal audit work in 2017/18 had funded other sources of assurance such as the Curriculum Review and a check on GDPR compliance. The Committee requested that the Vice Principal prepare a paper for the December Board updating progress on actions which had arisen from the GDPR compliance report. It was the opinion of the College's Senior Management Team that to forego an internal audit opinion for two consecutive years was a risk, as it placed a greater onus on seeking other forms of assurance. The draft internal audit plan had therefore been developed to cover governance, risk management and internal control which were required to secure an audit opinion. In addition, given the importance of apprenticeship provision to the College's Transformation Strategy, apprenticeships had been included as a particular focus within the plan. Ms Raynes noted that as the College was capacity building work placement provision as part of its preparations for T Level delivery from 2020, trips and visits had been included as a scheme of work within the plan. The Committee sought clarification as to how this would be audited and Ms Raynes explained it would address systems and processes such as the approval and risk assessment processes, what policies were in place and whether these were complied with (e.g. staffing ratios) and how the College tracked learners who were out of the College site. Trips was meant in the broadest sense of the word and so included learners on work placement. The focus

would be primarily upon health and safety aspects but the Committee requested that the scope be widened to include safeguarding too.

The Committee agreed that whilst some complacency could come from having an annual internal audit opinion they were happy that fresh eyes had been brought to the assurance process last year, and that the draft planning for every year needed to be a live process which showed the value of every proposed area of audit. This agreed that the draft strategic internal audit plan for 2018/19 addressed many relevant areas. Governors asked if the ESFA audit covered the needs of high needs learners and Mr Grindell explained that it was more of a technical audit and process based. However, the College was reviewing ALS provision and had appointed someone starting in December to conduct this which the Committee was pleased to learn. Governors queried whether an internal audit could address curriculum based risks-and after discussion it was felt that internal audit was not the best vehicle for this. Curriculum & Standards Committee reviewed the highest rated risks and were well placed to monitor. Audit Committee suggested one item be included as an exceptional item with the highest rated curriculum risks to ensure that C&S Committee retained oversight of it. It was noted that it did not appear on the risk register included under agenda item 1.12 as the management controls were felt to have mitigated the risk to a score which placed it under the highest risk threshold. Mr Grindell agreed to raise the matter for consideration when the SMT next discussed the risk register.

Action: Committee Chair to recommend approval of the Draft Strategic Internal Audit Plan for 2018/19 to the Board.

1.9/18.19 Regularity Self Assessment Questionnaire

Mr Grindell introduced the paper explaining that the regularity audit took place alongside the audit of the financial statements. College management submitted a self assessment questionnaire, the content of which was reviewed annually. The Committee suggested that the text be amended on page 11 to include reference to the creation of the Property Redevelopment Advisory Committee as an example of capital project monitoring.

Action: Committee Chair to recommend approval of the Regularity Self Assessment Questionnaire to the Board.

Mr Crippa left the meeting.

1.11/18.19 Draft Annual Audit Committee Report for 2017/18 to the Corporation and Principal

The Committee considered the draft report and suggested one amendment to page 4 to include 'and considers that its Terms of Reference are fit for purpose' to the end of section 7.

Action: Committee Chair to recommend approval of the Audit Committee Report to the Board, subject to the amendment above.

1.12/18.19 Risk Register Update

Mr Grindell presented the risk register updated for 2018/19 showing the highest rated risks. He explained that at this early point in the year the progress columns cannot be completed and thus the Committee would be able to see progress against each risk once term 1 was over and the progress column populated for that term (this would be at the next meeting of the Committee). The Committee suggested that they would like to have an executive summary to accompany the register but after discussion with Mr Grindell it was agreed that it would be helpful instead to evaluate at year end how effective the risk management process had been and to produce an annual report summarising this. The Committee queried the 20% growth figure included in the risks for 3.1, 3.2 and 3.3 as this seemed a high figure for one year. They asked Mr Grindell to check the figure and possibly revise the wording of these risks accordingly.

Addendum: Mr Grindell clarified that the 20% figure referred to a 20% growth target over 5 years contained with the Transformation Strategy.

The Committee suggested that the register should be amended to state the job title rather than the name of the SMT risk owner. Finally the Committee praised the value of the column citing independent sources of assurance.

Ms Bushell and Ms Raynes left the meeting.

1.13/18.19 IAS Performance Review 2017/18

This item was a confidential minute.

Action:

- Mr Grindell to prepare the IAS Performance Review for the December Board meeting
- Mr Grindell to prepare the timetable for the tender process for internal and external audit and circulate to the Committee.

Mr Grindell left the meeting.

1.14/18.19 Confidential matters of report

This item was a confidential minute.

1.15/18.19 Date and time of next Audit Committee meeting

Tuesday 19th March 2019 at 8am

The meeting closed at 10.15am.

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

Signed:

Dated:

Summary of action points

Item	Action
1.10 Regularity Audit Report	<ul style="list-style-type: none"> • Mazars to prepare a note on the principles of materiality for the March 2019 meeting • Committee Chair to recommend the Regularity Audit Report to the December Board
1.5 Review ToR	Committee Chair to recommend ToR amendment to the Board
1.8 Draft Strategic Internal Audit Plan	Committee Chair to recommend approval of the Draft Strategic Internal Audit Plan for 2018/19 to the Board.
1.9 Regularity Self Assessment Questionnaire	Committee Chair to recommend approval of the Regularity Self Assessment Questionnaire to the Board.
1.11 Draft Annual Audit Committee Report	Committee Chair to recommend approval of the Audit Committee Report to the Board
1.13 IAS Performance Review	<ul style="list-style-type: none"> • Mr Grindell to give feedback to IAS regarding their Performance Review • Mr Grindell to prepare the timetable for the tender process for internal and external audit and circulate to the Committee.