

## AUDIT COMMITTEE

### AGENDA NOTICE

<p><b>Audit Committee Meeting</b> <b>Date:</b> Tuesday 16<sup>th</sup> June 2020 <b>Time:</b> 9.00am <b>Venue:</b> Online</p>
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**3.1 Opening of Meeting and Apologies for Absence**

**3.2 Declarations of Interest**

**3.3 Minutes of the last Audit Committee meeting held 17<sup>th</sup> March 2020**

Chair of Audit Committee Appendix 3.3

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**3.4 Matters arising from the minutes**

Chair of Audit Committee Appendix 3.4

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#### EXTERNAL AUDIT

**3.5 External Auditors 2019/20 Accounts Audit Plan**

Report by Mazars & Consultant Director of Finance Appendix 3.5

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#### INTERNAL AUDIT

**3.6 Internal Audit Progress Report**

Report by Consultant Director of Finance & RSM Appendix 3.6

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**3.7 Internal Audit Plan 2020**

Report by Consultant Director of Finance & RSM Appendix 3.7

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#### RISK REGISTER & POLICY UPDATES

**3.8 Risk Management Policy Update**

Report by Consultant Director of Finance Appendix 3.8

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**3.9 Risk Register Update**

Report by Consultant Director of Finance Appendix 3.9

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**3.10 Anti-Bribery Policy Update**

Report by Consultant Director of Finance Appendix 3.10

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*Auditors to leave the meeting*

#### CONFIDENTIAL

**3.11 Any Confidential Matters of Report**

Verbal report by the Principal

**3.12 Date & Time of the next Audit Committee meeting**

tbc

DISTRIBUTION LIST

Committee

Mr J Francis – Chair  
Mrs S Chapman  
Mr N Crippa  
Ms C Fargeot  
Dr F Oduneye

In attendance

Ms V Barrett – Principal  
Consultant Director of Finance  
Ms C Gillam – Clerk to Corporation  
Ms L Raynes – RSM  
Ms N Wakefield - Mazars

## **Farnborough College of Technology**

### **Audit Committee**

Minutes of meeting held on Thursday 16<sup>th</sup> June 2020

#### Present:

Mr J Francis – Chair (via video conference)  
Mrs S Chapman - (via video conference) – from mid item 3.5  
Ms C Fargeot - (via video conference)  
Dr F Oduneye - (via video conference)

#### In Attendance:

Ms V Barrett – Principal (via video conference)  
Mr J Grindell – Consultant Director of Finance (via video conference)  
Ms L Raynes – RSM (via video conference) - left after item 3.10  
Ms N Wakefield – Mazars (via video conference) - left after item 3.5  
Ms C Gillam – Clerk to the Corporation (via video conference)

Quorate: Yes

*The meeting opened at 9.03am*

#### **3.1/19.20 Opening of Meeting and Apologies for Absence**

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Apologies were received and accepted from Mr Crippa. Dr Oduneye was welcomed to the Committee. It was noted that Mrs Chapman would join the meeting shortly.

#### **3.2/19.20 Declarations of Interest**

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

#### **3.3/19.20 Minutes of the meeting held 17<sup>th</sup> March 2020**

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The minutes of the last meeting were accepted as a true and accurate record. Mr Francis agreed to sign the minutes and scan them in for the Clerk to receive electronically.

#### **3.4/19.20 Matters arising from the minutes**

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The Committee received the progress report on matters arising. The Clerk reported that due to current workload supporting the College online the presentation on Cyber Security had been postponed until the autumn. Governors enquired as to progress with recruiting new Governors to the Audit Committee. The Clerk reported that the matter had been discussed at Search Committee the previous week and that two Board vacancies were being advertised on various external websites including Women on Boards and the ICAEW. One vacancy would need to be filled by a qualified accountant in line with recommended best practice in the sector. The Vice-Chair of Corporation had circulated details of the vacancies via LinkedIn and a Non Executive Directors website and from this there were potentially two people showing interest.

#### **3.5/19.20 External Auditors 2019/20 Accounts Audit Plan**

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Ms Wakefield introduced the draft plan which had been drawn up following discussions with Mr Grindell. The document would require updating closer to the time that fieldwork would be conducted so that permissible working conditions would be known. At this point it was envisaged that the audit could be completed via a combination of onsite and remote working. Ms Wakefield informed the Committee that Mazars were currently completing all audits remotely and thus had the necessary systems in place to do so as long as the requested information could be supplied electronically. The draft timetable of planning, testing of controls and completion was in line with previous years. Management override of controls and income recognition were included in the plan as standard significant risks as was the College as a going

concern but the latter would receive greater attention this year due to the national economic situation. Whilst remaining a going concern was not anticipated to be an issue for this College, the financial impacts of the coronavirus would mean that there would be greater testing of all organisations' solvency. Other risks which Mazars would review as key areas of management judgement were bad debt provision, defined benefit pension scheme assumptions, depreciation and funding clawback provisions.

*Mrs Chapman joined the meeting.*

Ms Wakefield drew attention to the proposed fees for external audit and other assurance services but noted that this assumed that there would be no material change to the scope of the auditors' work in relation to the regularity opinion. The Office for Students (OfS) had proposed stronger reporting on regularity which was under consideration by the ESFA. However, it seemed unlikely that this would be introduced for 2019/20. Governors requested more information and Ms Wakefield explained that currently colleges complete a regularity self-assessment which external auditors review and issue a report upon. The OfS was seeking more of an HE assurance model with additional testing which would incur significant extra work and thus increase the auditing fees.

Governors enquired how the pandemic was impacting current audit approaches and opinions. Ms Wakefield replied that Mazars had been completing external audits in the charity sector and were including a general paragraph referencing Covid 19 related uncertainties. For those charities struggling financially for whom remaining a going concern was an issue a stronger more specific audit report was being given. It was anticipated that FCoT 's audit report would include the general covid-19 paragraph and nothing more specific. A new audit standard was being introduced regarding going concern testing to ensure auditors brought the right level of focus and challenge to this area and it would require more auditing time. Mr Grindell advised the Committee that the College's increase in 16-18 numbers was helpful as this generated 55% of College income and would bring in an additional £1.5m next year. The Principal also noted that the College had increased its numbers of LLDD students which was another source of reliable income. Meanwhile the College's Transformation Strategy would be adjusted to reflect the importance of the College diversifying its income stream

**Action:** Committee Chair to recommend approval of the External Auditors 2019/20 Accounts Audit Plan to the Board.

*Ms Wakefield left the meeting.*

### **3.6/19.20 Internal Audit Progress Report**

Ms Raynes introduced the summary of progress against the internal audit plan for 2019/20. The coronavirus shutdown had impacted the schedule of planned audit reviews. The audit of learner number systems was still in progress with work on the Adult Education Budget and study programmes nearly complete. Work on apprenticeships was on hold as most of the required paperwork was in hard copy. Work could either proceed with sample testing of paperwork onsite or be switched to a DSATS review in order to complete the audit of learner number systems, but this would need to be a decision taken in conjunction with management. Audit work on following up previous audit actions was nearing completion with most actions found to be implemented or superseded by other work. The planned audit review of governance was due to have featured an observation of the April Board meeting but with the move to online meetings it was not felt that this was the best approach to take. RSM had therefore agreed with College management to change the governance review to a review of the Board pack which would be issued for the July Board meeting. This approach would work well remotely and RSM would review the documentation included in the pack and benchmark against other colleges. The proposed review of capital projects had been deferred from the summer term and moved into the internal audit plan for 2020/21.

Ms Raynes noted that at the back of the Progress Report were some RSM client briefings covering areas such as Covid 19 fraud risks, cyber security risks and guidance for clients that required onsite working. Governors enquired how the next year's audit plan would be affected if there was a second wave of the virus later in the year or at Easter. Ms Raynes noted that timings would have to be kept under review as circumstances changed. Traditionally not much internal audit work was conducted in the autumn term and the more paper based work reviewing learner number systems was normally conducted around Easter. It may be that as remote working became more of the norm some paper documents would be moved online anyway. As was the case for the current year, there was flexibility in the timings for and the scope of the different internal audit reviews for 2020/21. Ms Raynes confirmed that the internal audit work for 2019/20 would be completed in time to enable an internal audit opinion to be given. It was just necessary to agree the best way forward for the apprenticeship numbers testing. The Principal explained that the College was keeping attendance on site to a minimum but that members of the apprenticeship team were coming onsite to work and therefore it could be possible to arrange a separate room for the auditors and supply the paperwork required. Ms Raynes agreed to explore with Mr Grindell the potential for a mixture of onsite and remote working to conclude the apprenticeship testing. It was agreed that the internal audit work RSM had conducted the previous year on apprenticeships had proved most useful in alerting the College to an area of high risk in funding due to the many changes to apprenticeship funding rules introduced by the Government in year. Governors acknowledged that internal audit testing was one part of the assurance process and that management controls would always be required. The Principal agreed and noted that the issue in 2018/19 lay not with the College's systems but were sector wide and due to multiple changes to regulations.

Governors noted the client briefings regarding increased fraud and cyber security risks and that these were generic briefings applying to all sectors and were included for information. They asked if the 2020/21 audit plan needed to be amended to reflect these risks and Ms Raynes noted that having audited cyber security in 2019/20 with no high level management actions arising it was not judged necessary to audit the same area again so soon. The follow up to actions in 2020/21 would pick up the progress on the cyber security action points and cyber security might feature as part of the internal audit of 'lessons learned from Covid 19' which was included in next year's plan. Mr Grindell informed the Committee that the College had obtained its cyber essentials certification and was now working towards ISO 27001 certification which was an information security standard which would be required for ESFA funding in 2021. Modulo2 which provides IT consultancy to the College would assist in obtaining the ISO certification and the Principal noted that she would include ensuring certification in her personal targets which would be reviewed by Remuneration Committee.

### **3.7/19.20 Internal Audit Plan 2020**

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Ms Raynes explained that the draft plan for next year had been prepared following discussion with Mr Grindell. Included were the standard items required for an internal audit opinion to be given: learner number systems; key financial controls; governance and risk management; follow up. The review of capital projects deferred from the current year was included and scheduled for early 2021. Also included would be a review of lessons learned from Covid 19 which would make wide ranging sector comparisons. The Committee approved the focus of next year's plan.

**Action:** Committee Chair to recommend approval of the Internal Audit Plan 2020 to the Board.

### **3.8/19.20 Risk Management Policy Update**

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Mr Grindell explained that when the policy was reviewed in 2019 amendments were made to provide clarification with regards to risk management on the relative roles of the Board, the Committees and SMT. The only change proposed to the policy this year was to rephrase the

College's risk appetite statement and to state the priority areas where risk would be particularly minimised. Governors approved the amended risk appetite statement. It was noted that the helpful new executive summary which accompanied the risk register in item 3.9 tracked the gross scores for risk but the policy implied a monitoring of net scores. It was suggested that the executive summary to the risk register should be amended to match the policy. It might also be useful to monitor how long net red risks remained red. Governors perceived that risks emerged, were rated red and then mitigating actions were taken and the risks reduced but it would be helpful to capture that movement in the summary of the register. One Governor shared an example of a one page box grid risk map from his organisation which plotted all risks on a grid mapping likelihood against consequences. Each risk was colour coded to show the net risk colour rating and had a symbol to show direction of travel for that risk i.e. was the risk profile improving, stable or deteriorating. The risk map was felt to be very clear and useful and it was agreed that such a map adapted for the College should be trialled.

Governors asked for clarification as to the relationship between the high level College risk action plan compiled at SMT and the departmental risk plans as set out in the policy in sections 9d and 9e. The Principal and Mr Grindell explained that departmental risk registers fed into the high level register in a similar process to that for the departmental Self Assessment Reports (SAR) which fed into the main overall College SAR. It was agreed that to capture this process section 9d of the policy should be amended to "The Risk Register Action Plan is compiled by the Senior Management Team **based on feedback from the departments/Schools** and helps to facilitate..." (new text shown in red). It was also noted that the risk matrix in the appendix to the policy should read "Medium" rather than "Possible" on the impact axis. Subject to these amendments the policy was approved.

**Action:** Committee Chair to recommend approval of the amended Risk Management Policy to the Board.

### **3.9/19.20 Risk Register Update**

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The Committed thanked Mr Grindell for the excellent executive summary which accompanied the risk register. It provided valuable context for how the register had evolved since it was last reviewed by the Committee and the Board. Mr Grindell agreed that following the discussion under the previous topic he would now include net scores and a risk map grid adapted from the version shared. It was agreed that if the risk map proved helpful then it could also be used at C&S and F&GP Committees to help monitor their key risk areas.

The Committee examined the register itself noting that the net risk for GCSE English had been reduced to 9. Governors enquired as to what the BKSB system was and the Principal explained that it was an online maths and English assessment and learning tool. It had proved particularly useful during lockdown as it had lots of resources such as past papers. For risk number 8 concerning future financial viability it was noted that the College's outstanding financial health was regularly reviewed through the monthly management accounts and included in the commentary. Mr Grindell explained that the three elements to the financial health assessment were the College's profitability, its cash reserves and its exposure to borrowing, of which the College had none. The Committee noted the inclusion of five new risks to the register which were all Covid 19 related. The new risk concerning apprenticeships and risks of redundancies affecting September starts and those apprentices carrying over from this year was discussed. As the furlough scheme came to an end redundancies and suspensions were likely and the impact upon apprenticeships was a key strategic risk. It was thought that new apprenticeships were more at risk than carry overs. The draft budget to be discussed at the forthcoming F&GP Committee meeting would note that pre covid 19 projections had projected £2.6m apprenticeship funding consisting of £1.4m from carry overs and £1.2 from new starts. There were many uncertainties about what might happen in the autumn but the draft budget would now target £2m apprenticeship income with £1.4m from carry overs and

£0.6m from new starts. The Principal agreed that apprenticeships were a high risk area and even a 6 month delay in levy employers spending their levy funding due to other competing financial priorities would also affect apprenticeship income. The Committee agreed that having discussed the matter it was apparent that apprenticeship income was perhaps the greatest risk faced by the College and thus its risk score in the register should be increased to the maximum. It was agreed that the risk scores for the T Level risk and the apprenticeship risk should be reversed to be 20 and 25 respectively. It was also agreed that although each of the new risks had mitigating strategies in place their risk scores should not be reduced until the effects of those strategies could be seen.

**Action:** Mr Grindell to amend the executive summary to include net risks and a risk map, and reverse the risk scores for the new T Level and apprenticeship risks.

### **3.10/19.20 Ant Bribery Policy**

Mr Grindell informed the Committee that the policy had been updated to align with changes made to the Financial Regulations regarding the limit for registering hospitality and gifts. The policy was approved.

**Action:** Committee Chair to recommend approval of the Anti Bribery Policy to the Board.

*Ms Raynes left the meeting.*

### **3.11/19.20 Any confidential matters of report**

This item was a confidential minute.

### **3.12/19.20 Any other business**

The Committee reflected that the online meeting had worked well.

### **3.13/19.20 Date and time of next Audit Committee meeting**

This would be confirmed after the July Board meeting.

*The meeting closed at 10.47 am.*

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

Signed: .....

Dated: .....

### **Summary of action points**

<b>Item</b>	<b>Action</b>
3.5 External Auditors 2019/20 Accounts Audit Plan	Committee Chair to recommend approval of the External Auditors 2019/20 Accounts Audit Plan to the Board.
3.7 Internal Audit Plan 2020	Committee Chair to recommend approval of the Internal Audit Plan 2020 to the Board.
3.8 Risk Management Policy Update	Committee Chair to recommend approval of the amended Risk Management Policy to the Board.

3.9 Risk Register Update	Mr Grindell to amend the executive summary to include net risks and a risk map, and reverse the risk scores for the new T Level and apprenticeship risks.
3.10 Anti Bribery Policy	Committee Chair to recommend approval of the Anti Bribery Policy to the Board.