

AUDIT COMMITTEE

AGENDA NOTICE

Audit Committee Meeting
Date: Monday 19th June 2023
Time: 5 - 7pm
Venue: Online

- 3.1 Opening of Meeting and Apologies for Absence**
- 3.2 Declarations of Interest**
- 3.3 Minutes of the last Audit Committee meeting held 21st November 2022**
Chair of Audit Committee Appendix 3.3
- 3.4 Matters arising from the minutes:**
Chair of Audit Committee Appendix 3.4

INTERNAL AUDIT

- 3.5 Internal Audit Services Reports**
Report by Director of Finance & Corporate Services & RSM Appendix 3.5
- 3.6 Outstanding Internal Audit Action Points**
Report by Director of Finance & Corporate Services Appendix 3.6
- 3.7 Internal Audit Plan 2023-24**
Report by Director of Finance & Corporate Services & RSM Appendix 3.7

EXTERNAL AUDIT

- 3.8 External Auditors 2022/23 Accounts Audit Plan**
Report by Mazars & Director of Finance & Corporate Services Appendix 3.8

RISK REGISTER, CODE OF PRACTICE & POLICY UPDATES

- 3.9 Post-16 Audit Code of Practice**
Report by Director of Finance & Corporate Services Appendix 3.9
- 3.10 Risk Management Policy Update**
Report by Director of Finance & Corporate Services Appendix 3.10
- 3.11 Risk Register 2022/23**
Report by the Director of Finance & Corporate Services Appendix 3.11

Auditors to leave the meeting

CONFIDENTIAL ITEMS

- 3.12 Any Confidential Matters of Report**
Verbal report by the Principal
- 3.13 Any Other Business**
1. Any items for discussion under AOB must be sent through in advance to the Clerk.
2. To agree the 2/3 key items from the meeting for the Chair to report on at the March Board

3.14 Date & Time of the next Audit Committee meeting

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DISTRIBUTION LIST

Committee

Mr J Francis – Chair
Mr N Crippa
Ms J Houzer
Ms K Yeomans

In attendance

Ms V Barrett – Principal
Mr P Makwana – Director of Finance & Corporate Services
Mr T Parker – RSM
Ms N Wakefield - Mazars
Ms C Gillam – Clerk to Corporation

Farnborough College of Technology

Audit Committee

Minutes of meeting held on Monday 19th June 2023

Present:

Ms J Houzer– Chair (via video conference)
Mr N Crippa - (via video conference)
Mr J Francis – (via telephone) – from after item 3.11

In Attendance:

Ms V Barrett – Principal
Mr P Makwana – Director of Finance & Corporate Services
Mr T Parker – RSM (via video conference) - left before item 3.12
Ms N Wakefield – Mazars (via video conference) - left before item 3.12
Ms C Gillam – Clerk to the Corporation

Quorate: Not until after item 3.11 when Mr Francis joined the meeting.

The meeting opened at 5.35pm

3.1/22.23 Opening of Meeting and Apologies for Absence

Apologies were received and accepted from Ms Yeomans. It was noted that due to an unavoidable event Mr Francis would not be able to join the meeting until later. The Committee would therefore proceed inquorate until that point, and any items for decision would be taken once quoracy was achieved. It was noted that Mr Francis had already held a pre-Committee meeting with the Director of Finance & Corporate Services to discuss the papers in detail.

3.2/22.23 Declarations of Interest

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

3.3/22.23 Minutes of the meeting held 13th March 2023

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

Addendum: as the meeting was not quorate at this point Mr Francis and Ms Yeomans were contacted by email following the meeting to approve the signing of the minutes. Both agreed, making this decision quorate.

3.4/22.23 Matters arising from the minutes

The Committee received the progress report on matters arising noting that both actions had been completed.

3.5/22.23 Internal Audit Services Reports

The Director of Finance & Corporate Services introduced the Internal Audit Services Report noting that it contained the draft Annual Internal Audit Report for 2022/23 together with all the Internal Audit assignment reports for the year thus far. The RSM Internal Auditor noted that the 'Staff Utilisation and Wellbeing' and the 'Budgeting and Financial Planning' reports had been discussed and approved by the Committee at the March meeting.

Draft Annual Internal Audit Report

Turning to the draft Annual Internal Audit Report for 2022/23 the Internal Auditor advised the Committee that it would receive the final version to discuss and approve at the November 2023 meeting, but at this draft stage an amber/green internal audit opinion was proposed which was

in line with previous years. In arriving at this opinion RSM had considered the College's excellent performance on its follow up actions. There were a greater number of management actions than in the previous year as a number arose from the 'Staff Utilisation and Wellbeing' report, but there was nothing of major concern. The College's robust financial controls were evidenced in the 'Budgeting and Financial Controls' report which resulted in one low priority management action and the 'Governance' report had received substantial assurance. From RSM's attendance at Audit Committee meetings it had observed the review and challenge given by Governors to the risk register which helped to inform its risk management opinion.

IA Report - Governance

The Internal Auditor introduced the governance audit report noting that it had checked compliance against four areas of the AoC Code of Good Governance. Two new areas ('Environmental Sustainability' and 'Equality, Diversity and Inclusion') and two standard others ('Strategy and Leadership' and 'Responsiveness') had been chosen. An audit opinion of substantial assurance was given driven by the College being able to demonstrate full compliance with all the Code's 'must' requirements which are mandatory aspects. The Code contains a number of 'should' recommendations which are recommended good practice and here some advisory actions (MA1, MA3 and MA5) had been given by RSM which management had responded to. In response to the remaining two advisories (MA2 and MA4) College management had responded that it was satisfied with current practice and thus a management action had not been raised, but the advisories were being reported to Audit Committee so that management's response could be reviewed.

Governors' questions and comments

Governors noted that nothing contentious had been raised in the report and the three actions accepted by management were reasonable and not onerous. The Principal added that the report had evidenced the College's compliance with the mandatory aspects of the Code, and that in areas such as EDI and sustainability the Board was governed by its values and its publicly stated commitment to these areas, and not by a tick box approach to the suggested 'shoulds' of the Code.

IA Report- Budgeting and Financial Planning

This discussion was recorded as a confidential Part 2 minute.

IA Report - Follow Up

The Internal Auditor presented the report noting that everything had been completed and this was a good report.

IA Report - Learner Number Systems (LNS)

The Internal Auditor explained that RSM follow the ESFA's audit sample size and methodology in order to prepare the College in case an ESFA LNS audit is held. One high, six medium and six low priority actions were raised for management. The high priority action (MA2.1) concerned planned hours for T Levels and two instances were identified where the learners' total hours were below the minimum number required for that funding band. In addition, another learner was identified where it was unclear how the College would be able to ensure they would complete all the required 315 hours of industry placement and the 828 hours of College time. These three learner issues would result in the risk of a small funding adjustment, likely by one funding band, but other learners might be similarly affected.

Governors' questions and comments

Governors enquired which courses the three learners were studying. The Internal Auditor responded that it was 'Digital' and 'Education & Childcare'. There were known national issues with securing Digital work placements. The Principal advised the Committee that the College

had just completed its timetabling protocol. The Principal advised she had found a number of teacher-led activities have not been captured on timetables e.g. significant exam revision / preparatory hours and that these are now reflected in the Timetabling Protocol. The Principal further explained that 28,000 examination hours had been held at the College this year and some T Level learners were sitting 10 hours for one examination. None of this has been costed appropriately and it is taking up a huge amount of staff time in invigilation. Almost all of SMT have been involved in invigilating exams. Going forward the College will ensure it reflects revision delivery in its delivery hours. Governors agreed that this needed to be captured, and reflected that there was a sting in the T Level delivery tail. The placement hours and the curriculum and examination burden were all unsustainable. Governors agreed that the College should decide on an appropriate capacity for T Levels and other complementary hours. Additionally, as reported elsewhere, the EDI Committee met to look at T Level risks with the aim of writing a letter to the Secretary of State regarding the qualification. All acknowledged T Levels were having a difficult birthing process! The Principal also emphasised they are good occupational qualifications, with strong interest from parents and learners, and like any new qualification they will take time to grow with greater public confidence, subject to fewer negative publicity.

Returning to the LNS report the Internal Auditor discussed the medium priority actions and noted that for one of them (MA3.4) regarding progress reviews it had been announced today that the error identified in the Internal Audit report would no longer be categorised by the ESFA as a funding error, so in reality this management action was now effectively a low priority action as it would not impact funding. The Principal added that progress reviews had been re-introduced and the College had procured a Smart Assessor programme which would be used from next year to systematically capture these reviews. Governors noted that the Internal Audit review seemed fair and suggested that to facilitate Curriculum & Standards' monitoring of apprenticeships all the management actions identified in the report for post May 2017 apprenticeships (MA3.1 through to MA3.7) should be included as headings in the apprenticeship report to that Committee. In this way Audit Committee could gain assurance that these were not systematic errors.

Action: Curriculum & Standards Committee to monitor the apprenticeship related management actions via the Apprenticeship Report to their Committee.

3.6/22.23 Outstanding Internal Audit Action Points

The Internal Auditor reported 'Good' progress with the follow up report, and that all actions had either been implemented or were superseded. The actions from the recent LNS audit discussed above had been raised as new actions.

3.7/22.23 Internal Audit Plan 2023-24

The Director of Finance & Corporate Services presented the draft Internal Audit plan for next year noting that at the time of writing the report the proposed price increase to deliver the plan (resourced at 40 days) was 8.8% when compared to last year. Having raised this increase with RSM the price had been reduced to an increase of 6.6% on last year, which was a cost of £26,600 before VAT. An amended paper would be issued when it came to the Board for approval. The Internal Auditor presented the draft Internal Audit Plan for 2023/24 noting that as per the March 2023 Audit Committee's request the plan included two areas that have not been covered at the College for some time, namely 'Health and Safety' and 'OfS compliance' (to check HE provision) in addition to the usual core assurance work. He noted that internal audits of key financial controls had been green rated in recent years and so the 2023/24 plan would focus upon checking that the College's Financial Regulations align with the new DfE public sector requirements as well as a range of data analytics tests. RSM will also ensure that the annual mock funding audit of LNS includes a sample of T Level learners to provide the

Committee with an update on the issues raised in the 2022/23 report. Appendix B to the plan set out what could potentially be covered in future years. The Internal Auditor noted that the fee increase for the delivery of the plan was half the cost of inflation.

Governors' questions and comments

Governors asked if the College's management felt that the plan covered the right areas. The Principal noted that the plan had been adjusted to include the OfS aspect as the College was keen to seek assurance that OfS thresholds were being met. Everything else was in line with what had been planned, but as with previous years the draft plan could still be amended at the Board meeting.

The Internal Auditor noted that also attached to this agenda item was the FE Emerging Issues bulletin which raised some key issues regarding the public sector reclassification. The bulletin also noted recruitment fraud risks which were on the rise such as the use of false qualifications and false references. Governors enquired whether there were implications for how the College pays its staff using its performance related pay approach following the public sector reclassification. The Internal Auditor advised that more would be known when the FE College Handbook was released in the autumn but it was likely that only high level pay would be impacted. The Director of Finance & Corporate Services added that in a paper to the June F&GP Committee amendments to the College's Financial Regulations were being proposed to take into account Managing Public Money regulations. This would cover areas such as severance, redundancies and SPH pay. The Principal added that her bonus was the only area likely to be affected and that she would rather accept a 9% bonus than have the College apply to the DfE for permission to award a 10% bonus. Governors sought to clarify whether colleges would be forced to move to a banded pay scale approach like that used in schools, and the Principal noted that unlike schools colleges do not receive DfE money to fund staff pay rises so this move was currently unlikely but could be reviewed in 2025 when more significant changes were expected.

3.8/22.23 External Auditors 2022/23 Accounts Audit Plan

The Director of Finance & Corporate Services introduced the Accounts Audit Plan for 2022/23 and noted the increase in fees flagged on page 2. The Mazars External Auditor presented the plan noting that it was a standard audit plan with a similar timetable to last year. She explained there were new requirements to ensure compliance with the 'Managing Public Money' obligations and other related obligations owing to the public sector reclassification of colleges. One impact was that the College's Regularity Self-Assessment Questionnaire would be longer to cover a number of questions regarding this and so it was expected that the regularity audit would take longer. The External Auditor highlighted the significant risks and noted that they were similar to previous years, and that key management judgement areas were pensions, bad debt provision, funding clawback provisions and depreciation. She noted that there was a significant increase in the proposed fees due to inflation and additional audit work required as a result of the impact of changes to the auditing standard ISA315 and increased regularity work. Mazars had expected an increase of about 20% in work for their clients but in the audits which had taken place thus far this was closer to a 50% increase.

Governors' questions and comments

Governors enquired whether the external audit fee increase was taking place across the sector. The Director of Finance & Corporate Services drew attention to the table of comparable fee increases across the sector on page 2 of the agenda item cover sheet and noted that FCoT's increase seemed disproportionately high at 32.7% against a sector average of 19/20%. The External Auditor explained that it was difficult to compare against other audit firms' fees. For Mazars the recovery on their costs needs to be 50%, but FCoT's fee was likely to be below that

benchmark. Mazars had been consistent in the fee increases across their FE college clients. It was agreed that the fees would be discussed at the Board meeting.

3.9/22.23 Post-16 Audit Code of Practice

The Director of Finance & Corporate Services drew attention to the updates to the Post-16 Audit Code of Practice which were to meet obligations from 'Managing Public Money' and public sector reclassification. The cover to the agenda item gave a summary of the changes which included areas such as senior pay controls, selling of assets and borrowing. The Principal noted that it was important to bear in mind the implications of 'Managing Public Money' in every decision.

Governors' questions and comments

Governors noted that 'Managing Public Money' was the new monitoring lens. Every Committee, even those not associated with spending decisions, should view their work through that lens, just as they would for example with EDI. Public sector reclassification is a huge cultural change and not just a financial change. The Principal highlighted the importance of the Board receiving an annual briefing from Eversheds to keep current with its obligations. The Internal Auditor added that the Government was expected to release a new College Financial Handbook in September which would consist of 'must' and 'should' requirements and will include governance and other non-financial requirements. It is expected to be similar to the handbook in use for academies so this may give an early steer as to its content.

3.10/22.23 Risk Management Policy Update

The Director of Finance & Corporate Services introduced the updated Policy noting that the only change was to the date of review and next review. He added that the Internal Auditors had reviewed the policy last year and it had received substantial assurance. The Principal added that the policy works very well.

3.11/22.23 Risk Register Update

The Director of Finance & Corporate Services presented the risk register noting that there were 15 top level risks of which 10 were curriculum and 5 financial. A new risk C10 had been added relating to failure to meet the OfS B3 regulatory conditions. It was noted that curriculum risks were discussed in the Curriculum & Standards Committee and financial risks were discussed in the F&GP Committee.

Mr Francis joined the meeting by telephone.

As the meeting was now quorate the following agenda items were returned to for decision:

3.5/22.23 Internal Audit Services Reports

The Chair noted that the Committee had discussed the three Internal Audit reports for approval noting the key issues regarding the LNS audit, in particular around the management actions for T Levels and apprenticeships. The T Level issues should be discussed at the Board but there was nothing contentious and Curriculum & Standards Committee would assist with the monitoring of the action points regarding apprenticeships going forward. The Committee agreed to recommend approval of the reports to the Board.

Action: Committee Chair to recommend approval of the three IA Reports to the Board.

3.7/22.23 Internal Audit Plan 2023-24

The Chair noted that the Committee had discussed the plan which seemed sound and noted the revised pricing. The Committee agreed to recommend approval of the Internal Audit Plan to the Board.

Action: Committee Chair to recommend approval of the Internal Audit Plan 2023-24 to the Board.

3.8/22.23 External Auditors 2022/23 Accounts Audit Plan

The Chair noted that the Committee had been briefed by the External Auditor regarding the increased work required this year to address ISA315 changes and increased regularity work. The proposed fee had increased to reflect significantly more audit work. The Chair noted that the Director of Finance & Corporate Services had analysed sector fees and that there was a discussion to be held at the Board regarding fees but the plan of external audit work seemed appropriate. Mr Francis enquired whether the Committee was satisfied that the extra scope of external audit work was necessary. The External Auditor explained that due to the impact of ISA315 changes they would have to revise their whole audit approach and that this was mandatory. The longer Regularity Self-Assessment Questionnaire requiring more evidence from the College would also require more time from the auditors to audit the College's responses. Just the changes to ISA315 were already causing 50% more work in audits which had taken place. The increase of 32% in the College's audit fees was approximately caused by 10% inflation and 20% scope. The Chair noted that making comparisons to fee increases across the sector was difficult as comparators may start from a different base, but that Mazars were clear that they were looking to recoup 50% of their costs. The External Auditor added that for Mazars clients there was a similar price increase in fees across the sector. The Committee agreed to recommend approval of the External Auditors Accounts Audit Plan to the Board and return to the issue of fees there.

Action: Committee Chair to recommend approval of the External Auditors 2022/23 Accounts Audit Plan to the Board.

3.10/22.23 Risk Management Policy Update

The Chair noted that the only change to the policy was the date. The Committee agreed to recommend approval of the Risk Management Policy to the Board.

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

Mr Parker and Ms Wakefield left the meeting.

3.12/22.23 Confidential matters of report by the Principal

There were no items to report.

3.13/22.23 Any Other Business

Part of this item was a confidential Part 2 minute.

Finally, it was recorded that this was Mr Francis' last Audit Committee meeting and he was thanked for his service to the Board and his chairing of Audit Committee for the past six years. Mr Francis thanked his colleagues and noted that he had thoroughly enjoyed his time on the Board.

3.14/22.23 Date and time of next Audit Committee meeting

This would be confirmed after the July Board meeting.

The meeting closed at 7.33pm.

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

Signed:.....

Dated:.....

Summary of action points

| Item | Action |
|---|--|
| 3.5 Internal Audit Services Reports | <ul style="list-style-type: none"> • Curriculum & Standards Committee to monitor the apprenticeship related management actions via the Apprenticeship Report to their Committee. • Committee Chair to recommend approval of the three IA Reports to the Board. |
| 3.7 Internal Audit Plan 2023/24 | Committee Chair to recommend approval of the Internal Audit Plan 2023-24 to the Board. |
| 3.8 External Auditors 2022/23 Accounts Audit Plan | Committee Chair to recommend approval of the External Auditors 2022/23 Accounts Audit Plan to the Board. |
| 3.10 Risk Management Policy Update | Committee Chair to recommend approval of the Risk Management Policy to the Board. |