

FAREHAM COLLEGE

AUDIT COMMITTEE

25th November 2014

MINUTES

Present: Mr S Carter (Chair)
Mrs J Lancaster
Mr A Spires (Skype link)
Mr J Westbrook

In attendance: Mr N Duncan (Principal)
Mr P Marsh (Deputy Principal)
Mrs J Robinson (Head of Finance)
Mr M Ramji (Grant Thornton)
Mr R Nicholls (Grant Thornton)
Mrs K Shaw (SIAP)
Mrs J Eayrs (Clerk)

32/14 Pre-meeting with Financial Statements Auditor

Members of the Audit Committee met privately with the Financial Statement Audit Service Provider without the Executive Management being present prior to the consideration of the Closure of Accounts to discuss the audit process and any issues of concern. Following these discussions members of the Executive/management officers, Mr Duncan, Mr Marsh and Mrs Robinson were invited to join the meeting. The Chair briefly outlined the discussions which had taken place and confirmed the view of the External Auditors that the Audit had gone extremely smoothly, it had felt a very open process and there were no issues of concern.

33/14 Presentation – Learner Numbers System

Members of the Committee had requested a presentation on the Learner Numbers System from Charles Whinney, the MIS Manager, to provide a progress update on the Internal Audit outcomes from the May 2014 visit previously reported. The slides used during the presentation are an **Appendix** to these minutes.

The Chair thanked Mr Whinney for his presentation and he left the meeting.

34/14 Presentation – Employment and Job Outcomes

Members of the Committee had requested a presentation on Employment and Job Outcomes from Claire Middleton, Employment Services Manager, to provide a progress update on the Internal audit outcomes from the May 2014 visit previously reported. The slides used during the presentation are an **Appendix** to these minutes.

The Chair thanked Mrs Middleton for her presentation and she left the meeting.

35/14 Declaration of Interests

Members were reminded of the need to declare any personal or financial interest in any item of business to be considered at the meeting. No interests were declared.

36/14 Apologies for absence

Apologies for absence were received and accepted from Mr Wilkins.

37/14 Minutes of the meeting held on the 16th June 2014

The minutes of the meeting held on the 16th June 2014 were agreed as a true and accurate record and were signed by the Chair. There were no matters arising which were not covered elsewhere on the agenda.

38/14 Correspondence

There was no correspondence.

39/14 Annual Report of the Risk Management Group – November 2014

Members of the Committee received the Annual Report of the Risk Management Group – November 2014. Governors were aware that the College was required to submit an annual report to the Audit Committee and the Corporation on Risk Management in order to inform Governors on the adequacy of arrangements for risk management and to enable the College to demonstrate compliance with the recommendations of the Turnbull Committee.

The Deputy Principal spoke to the paper and advised members that an SMT Workshop had taken place that day with all risks being reviewed, refreshed and updated collaboratively with impact, probability, owners and mitigating actions agreed. He went on to say that, following feedback received from the Committee, an additional column had been added to show the 'movement' of the risk and any amendments from the SMT workshop would be included in the Annual Report due to be presented to the full Board at its meeting on the 10th December 2014.

Members were reminded that the report provided an annual 'reflection' of the work completed and the issues reviewed by the College's Risk Management Group during the course of the year. Members noted the risk themes which had been considered during the 2013/2014 year had included:

- OFSTED;
- Senior Management Structure;
- Student numbers and funding;
- CEMAST;
- Bishopsfield Campus.

The Deputy Principal confirmed that, during the year, each Corporation Committee had received a report of the College's top risks highlighting those in its own area of responsibility so that each committee could see where its risks fell within the overall College's risk profile and how the College was mitigating those risks.

Mr Wilkins had provided feedback via email as he was unable to attend the meeting. He had acknowledged that the summary sheet of key risks was useful but had requested that the Risk Registers be aligned to one format.

Members reviewed the report in detail and agreed to recommend that the College's Risk Management arrangements continued to be adequate to enable the Corporation to discharge its duties.

Members of the Audit Committee reviewed the Report and agreed to recommend to the Corporation that the College's Risk Management arrangements were adequate to enable the Corporation to discharge its duties.

40/14 Internal Audit Annual Report 2013/2014

Members of the Committee had received the Internal Audit Annual Report 2013/2014. Mrs Shaw, SIAP, spoke to the report and stated that it was a comfort to hear the progress which had been achieved in addressing the recommendations made in the previous audit visits related to Learner Numbers and Employment and Job Outcomes which had both received 'limited' assurance. In addition, she went on to draw members' attention to the following:

- Members were referred to section 2.2 on page 1 of the report which outlined the number of days approved for the Plan during 2013/2014. Mrs Shaw confirmed that 26.25 days had originally been agreed by the Audit Committee and no revisions to the plan had been made during the year;
- Members reviewed page 4 of the report which outlined the summary of audit opinions in 2013/2014;
- Members reviewed and noted the Audit Opinion at paragraph 3.5 which confirmed that the College had an adequate framework for governance, risk management and management control and testing had demonstrated that controls were working in practice with the notable exceptions of the learner numbers and employment and job outcomes systems within which significant weaknesses had been identified. She acknowledged that the Committee had been fully updated on the progress of the recommendations arising from these visits in the presentations received earlier in the meeting;
- The Committee noted that, based on the audit evidence obtained during 2013/2014, SIAP had concluded that for the five business areas reviewed substantial assurance could be placed on two areas, adequate assurance on one area and limited assurance on the two areas as outlined above.

The Chair sought feedback on the new approach adopted to select a more in-depth concentrated review of audit areas and the Deputy Principal confirmed that the introduction of the substantial reviews had added more value to the process.

The Committee reviewed and noted the contents of the Report and agreed to recommend it for formal approval by the full Corporation at its meeting on the 10th December 2014.

41/14 Annual Report of the Audit Committee to the Corporation and Principal of Fareham College: Financial Year 2013/2014

Members of the Committee had received the Draft Annual Report of the Audit Committee of Fareham College which had been prepared by the Clerk and reviewed by the Chairman. Members reviewed the contents of the report which outlined the work of the Audit Committee during the 2013/2014 year and agreed to recommend it to the Corporation for formal approval.

The Committee reviewed the Report and agreed it be presented to the full Corporation at its meeting on the 10th December 2014 for formal approval.

42/14 Closure of Accounts 2013/2014

(i) Financial Statements:

Members of the Audit Committee had received a copy of the Financial Statements Year Ended 31 July 2014 for discussion and review. The Deputy Principal spoke to the Accounts and drew members' attention to the following:

- The Accounts had been considered by the F&R Committee at its meeting on the 24th November 2014;
- There had been no changes since the draft position was reported to the full Board meeting in October 2014;
- Members were advised that the process had been as smooth this year as last year and he commended the Head of Finance and her team for this;
- The Accounts were commended and members noted that they were due to be presented to the full Corporation for approval and signing by the Chair and Principal at the meeting scheduled for 10th December 2014.

The Deputy Principal referred members to page 27 of the Accounts and drew the following to members' attention:

- **Surplus** on continuing operations before exceptional items – £472k (which meant the College had completed a seventh consecutive year of financial surplus);
- **Surplus** on continuing operations and exceptional items - £4,965,000 (members were reminded that this related to the Bloor land sale receipt);
- **Staff costs** had been reduced by £800k during the year.

Mr Wilkins had sought clarification via email on the position regarding the capitalisation of employee costs. The Deputy Principal had confirmed that there had been no comments raised on this issue as a result of the audit. The principle which had been agreed and adopted in line with accounting standards was that the College would only capitalise those employee costs incurred exclusively in relation to the capital works. In 2013/2014 the sums had been very small and in 2014/2015 it was noted that the College would capitalise the Capital Accountant and the IT infrastructure management costs. Grant Thornton confirmed that they were happy with the approach to capitalisation adopted and confirmed that an immaterial amount had been capitalised in the 2013/2014 Accounts.

Members of the Committee endorsed the recommendation of the Finance and Resources Committee that the Accounts be presented for formal approval by the full Corporation at its meeting on the 10th December 2014.

(ii) Self-Assessment of Compliance with Regularity and Propriety Requirements -

Members of the Committee received the Self-Assessment of Compliance with Regularity and Propriety Requirements. The Head of Finance spoke to the paper and referred members to page 5 of the report, in particular the issue related to Capital Project Appraisal. She continued by saying that the Financial Regulations had been updated to include the role of the Property Strategy Group.

Members reviewed the contents of the paper, noted the one amendment as reported by the Head of Finance, and agreed that the Self-Assessment of Compliance with Regularity and Propriety Requirements be recommended to the full Corporation for formal approval at its meeting on the 10th December 2014.

(iii) **Letter of Representation** – Members reviewed and agreed to recommend the Letter of Representation for formal approval by the full Corporation at its meeting on the 10th December 2014.

(iv) **The Audit Findings Report**

Members of the Committee had received the Audit Findings Report for consideration and review. Mr Ramji spoke to the paper and drew members' attention to the following key issues:

- The audit of the Accounts was substantially complete and there were currently no matters which would require modification of the audit opinion subject to the following outstanding matters which related to:
 - Going Concern: to update a review of the position;
 - Update of the post balance sheet events procedures;
 - Signed representation letters;
 - Final funding confirmation from the SFA.
- Members were referred to pages 5 and 6 which outlined the **Audit Findings – significant risks** which related to:
 - Improper revenue recognition – testing did not identify an issues with the exception of the HEFCE claw-back during the current year;
 - Management override of controls – testing had not identified any issues;
- **Going Concern** – Mr Ramji confirmed that GT were confident that there were no significant uncertainties in relation to the going concern position through to December 2015;
- **FRS 17** – Mr Ramji confirmed that GT had reviewed the actuarial valuation report to ensure that the pension liability was appropriately stated.

Mr Ramji confirmed that no issues had been identified to report to the Committee.

Members of the Audit Committee were satisfied that there were no issues of concern and agreed to recommend the Audit Findings Report for approval by the full Corporation at its meeting on the 10th December 2014.

43/14 Review of Contracts of Significant Value as part of 'value for money' Annual Review

Members of the Committee received a paper on Review of Contracts of Significant Value which provided an update on the College's policy and process around ensuring 'value for money'.

The Deputy Principal spoke to the report and confirmed that significant savings had been secured from the renewal of the cleaning contract. The Chair queried the position regarding utilities and the Deputy Principal confirmed that the BRC oil costs were high and that a new gas contract had been procured for CEMAST. There was a brief discussion about Corporation Tax related to energy being sold back to the energy supplier and it was agreed that the Deputy Principal would review the position. This approach was endorsed as good practice by the Internal Audit Service provider.

Members of the Committee reviewed and noted the contents of the paper.

44/14 Review of Internal Audit Recommendations – November 2014 Update

Members of the Committee received a paper which outlined outstanding audit recommendations for review by the Committee. Members reviewed the actions in train and the progress to date.

In particular members noted that:

- **Action Plan 1: Business Continuity** – The BCP had been revised and was ready for circulation when the final BT connection from CEMAST direct to JANET had taken place. The Deputy Principal advised members that there had been unpredicted delay in the installation of this line which meant that CEMAST continued to be a spur site off the main BRC campus JANET connection.

Members reviewed and noted the contents of the paper and noted the current position.

45/14 Outcomes of the Internal Audit Service Tender

Members of the Committee were aware that the arrangements for the tender of internal audit services had been approved by the Corporation at its meeting on the 2nd April 2014. The College had approached the following five firms to invite them to tender for internal audit services:

- Southern Internal Audit Partnership (as existing internal audit service provider);
- BDO Uk;
- Baker Tilly;
- Mazars;
- Menzies.

Members noted that BDO Uk did not respond to the invitation to tender and tenders were received from SIAP, Mazars, Baker Tilly and Menzies. The shortlisting Panel had reviewed the tenders and concluded that they would like to invite SIAP, Baker Tilly and Mazars to attend a formal interview due to be held directly prior to the full Audit Committee on the 25th November 2014 to provide a presentation to the Panel and answer any questions arising from the tender. Menzies had not been shortlisted due to their very limited FE market experience.

At the conclusion of the formal interviews, members of the Panel made a recommendation to the full Audit Committee with a view to this recommendation being formally approved by the full Corporation at its meeting on the 10th December 2014. The Deputy Principal confirmed that it was the recommendation of the Panel that Mazars be appointed as the Internal Audit Service Provider for the next 3 year period from 1st January 2015 to 31st December 2017 with an annual review.

The recommendation made was based on the following:

- The presentation was very comprehensive and very well presented;
- The answers to the Panel's questions were clear and concise;
- Mazars had significant experience in the sector;
- The tender from Mazars was competitively priced;
- The use of data tools would be of benefit to the College;
- The approach of sharing best practice and benchmarking against the rest of the sector would be beneficial to the College;

- The overall score for Mazars was 41 compared to 33 for SIAP and 29.5 for Baker Tilly.

Members of the Audit Committee agreed to recommend to the full Corporation that Mazars be appointed as the Internal Audit Service provider for the next 3 year period from 1st January 2015 to 31st December 2017.

46/14 Date of next meeting

It was noted that the next meeting was scheduled to take place on **16th March 2015 at 5.30 pm**

At the end of the meeting the Chair extended thanks and best wishes to John Westbrook who had completed 9 years' service to the Board.