

FAREHAM COLLEGE

**AUDIT COMMITTEE**

25<sup>th</sup> November 2015

**MINUTES**

Present: Mr S Carter (Chair)  
Mrs J Lancaster  
Mr A Spires  
Mr C Thomas  
Mr A Wilkins (telephone conference call)

In attendance: Mr N Duncan (Principal)  
Mrs J Robinson (Director of Finance)  
Mr M Bishop (Grant Thornton)  
Mr L Newman (Mazars)  
Mrs J Eayrs (Clerk)

**32/15 Pre-meeting with Financial Statements Auditor**

Members of the Audit Committee met privately with the Financial Statements and Internal Audit Service Providers 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 and Mrs Robinson were invited to join the meeting. The Chair briefly outlined the discussions which had taken place and confirmed that both Grant Thornton and Mazars had reported that their respective Audits had gone extremely smoothly and there had been no issues of concern.

**33/15 Presentation – Area Based Review (ABR)**

The Principal provided members with a presentation on the Area Based Reviews which provided an overview of the process and the progress to date:

- The purpose of the ABR was to save money with a view to making fewer, larger more sustainable colleges;
- There were 42 ABRs planned and Fareham was in the first wave, Solent LEP area;
- The FE Commissioner overseeing the process was David Collins;
- The first steering group meeting had taken place on the 5<sup>th</sup> November 2015 and the majority of that meeting had been clarification about the process;
- There would be a further 4 meetings (one a month) between now and March with each meeting having a specific focus;
- From these meetings a specific set of recommendations would be made with a view to colleges implementing them by within a practical time (by 2020);
- The next Steering Group meeting was scheduled for the 8<sup>th</sup> December 2016;
- The College had already been visited by the National Steering Group Representatives;
- The College recognised that, going forward, it was too small and the most significant relationship for the exploration of options was with Eastleigh College.

In addition the Principal provided members with an update on the CSR announcement which had been made that day. He explained that the FE sector had predicted bad news regarding significant funding cuts but the outcome had not been as bad as expected. Members of the

Committee discussed the implications as follows:

- The full-time learner funding base rate would stay the same for the remainder of this Parliament;
- ASB had been protected in cash terms but it was expected that colleges would be asked to “do more for less”;
- It was likely that all funding for 19 year olds would eventually be lost due to the fact Loans were now available. The Principal explained that loans could now be accessed by 19-23 year olds rather than just 24+ year olds;
- Governors sought clarification on what proportion of current students were 19+. The Principal confirmed that currently there were approximately 200 full-time 19+ students and 600-700 part-time students. He added that the College was underspent on its 24+ loans the previous year;
- Sixth Form Colleges were now able to become Academies which had positive VAT implications for them;
- There was still a big push from the Government for Apprenticeships and Higher Apprenticeships;
- The Principal provided members with some financial modelling options which had been prepared based on the anticipated 25%-40% cuts. He explained that BIS had absorbed a 17% cut which could have been passed on to the sector and, as a result, could have caused the College significant financial difficulty. He concluded by saying that the strategy was to push the growth of 16-18 year old apprenticeships (target for the year 1000) and a growth bid of £900k to fund that growth would be submitted.

**Members of the Committee noted the current position.**

#### **34/15 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.

#### **35/15 Apologies for absence**

Apologies for absence were received and accepted from Mr Nicholls, Grant Thornton.

#### **36/15 Minutes of the meeting held on the 17<sup>th</sup> June 2015**

The minutes of the meeting held on the 17<sup>th</sup> June 2015 were agreed as a true and accurate record and were signed by the Chair. There were no matters arising from them which were not covered elsewhere on the agenda.

#### **37/15 Correspondence**

There was no correspondence.

#### **38/15 Annual Report of the Risk Management Group – November 2015**

Members of the Committee received the Annual Report of the Risk Management Group – November 2015. 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 Principal spoke to the paper and advised members that an SMT Workshop had taken place that day (25/11/15) with all risks being reviewed, refreshed and updated collaboratively with impact, probability, owners and mitigating actions agreed. He went on to say that, 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 9<sup>th</sup> December 2015.

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 2014/2015 year had included:

- OFSTED;
- Senior Management Structure;
- Student numbers and Allied funding;
- Bishopfield Road Campus Development.

The Principal added that the Area Based Review had now been added to the Risk Register and the Comprehensive Spending Review (at the time of writing) as the outcomes, at that stage, had not been known.

The 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.

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.**

### **39/15 Internal Audit Annual Report 2014/2015**

Members of the Committee had received the Internal Audit Annual Report 2014/2015. Mr Newman, Mazars spoke to the report and drew the following to members' attention:

- **Internal Audit Work undertaken in 2014/2015** – Members were referred to page 1 of the report which outlined the number of days approved for the Plan during 2014/2015. Mr Newman confirmed that 26 days (including 3 days follow-up, 4 days Audit Management and 4 days contingency) had originally been agreed by the Audit Committee at its meeting on the 16<sup>th</sup> March 2015. In addition, members noted that all audits in the Plan had been completed during the period and the contingency days had not been utilised;
- **Summary of Internal Audit Work undertaken in 2014/2015** - Members reviewed page 8 of the report which outlined the summary of audit opinions in 2014/2015:
  - Learner Numbers review – Adequate level of assurance;
  - Core Financial Systems: Budget Setting & Control – Substantial level of assurance;
- **Priority 2 Recommendations** – Members reviewed and noted the summary of priority 2 recommendations provided at Appendix A2 to the report;
- **Annual Opinion** - Members reviewed and noted the Audit Opinion at Section 03 (page 2) which confirmed that:  
"Fareham College's governance, risk management and internal control arrangements were

generally adequate and effective to manage its achievement of the College's objectives". Members noted that certain weaknesses and exceptions had been highlighted by the audit work completed, but none had been considered fundamental;

- **Benchmarking** – Members reviewed and noted the benchmarking information provided which compared the Assurance Levels and categorisation of recommendations made at the College and Mazars FE College Client base;
- **Preparation of Plan for 2015/2016** – Governors suggested that the common themes arising from the areas receiving limited assurance be used to inform the review plans for the following year;
- **Audit Committee Annual Report** – Members reviewed and noted the good practice guidance provided on the content of Audit Committee Annual Reports. The Clerk confirmed that she would review the suggestions made to inform the development of future reports.

**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 9<sup>th</sup> December 2015.**

#### **40/15 Internal Audit Report: Core Financial Systems: Budget Setting and Control July 2015**

Members of the Committee received and noted the Internal Audit Report from Mazars for the Core Financial Systems: Budget Setting and Control review which had taken place in July 2015 (visit 2). Members noted that only 4 Priority 3 (housekeeping) recommendations had been made. Members discussed the issues which had arisen as a result of the audit and reviewed the proposed management response/actions to address the issues identified.

**Members reviewed and noted the contents of the Internal Audit Report (visit 2).**

#### **41/15 Annual Report of the Audit Committee to the Corporation and Principal of Fareham College: Financial Year 2014/2015**

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 2014/2015 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 9<sup>th</sup> December 2015 for formal approval.**

#### **42/15 Closure of Accounts 2014/2015**

##### **(i) Financial Statements:**

Members of the Audit Committee had received a copy of the Financial Statements Year Ended 31 July 2015 for discussion and review. The Chair provided feedback received from the External Auditors on the audit and process and confirmed it had been a good positive outcome. The Director of Finance 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 16<sup>th</sup> November 2015;
- There had been no changes since the draft position was reported to the full Board meeting in September 2015;
- Members were advised that the process had been as smooth this year as the

- previous year;
- The Chair provided feedback on two minor amendments to be incorporated into the version presented to the full Corporation;
- 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 9<sup>th</sup> December 2015;
- **I&E Operating Surplus** – £655k (which meant the College had completed an eighth consecutive year of financial surplus);
- **Staff Ratio** – Actual 55.9% compared to Budget 60.5%;
- **Physical cash** - £1.7m (excluding CEMAST).

**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 9<sup>th</sup> December 2015.**

- (ii) **Self-Assessment Questionnaire** - Members of the Committee received the Self-Assessment Questionnaire for consideration and review. The Director of Finance advised the Committee that the document had been considered by the Finance and Resources Committee at its meeting on the 16<sup>th</sup> November 2015 and they had agreed to recommend it for formal approval by the Board.

**Members reviewed the contents of the paper and agreed that the Self-Assessment Questionnaire be recommended to the full Corporation for formal approval at its meeting on the 9<sup>th</sup> December 2015.**

- (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 9<sup>th</sup> December 2015.

(iv) **The Audit Findings Report**

Members of the Committee had received the Audit Findings Report for consideration and review. Mr Bishop, Grant Thornton 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:
  - Latest available set of management accounts;
  - Signed Letter of representation;
  - Final funding confirmation.
- Members were referred to page 6 which outlined the **Audit Findings – significant risks** which related to:
  - Improper revenue recognition – no issues had been identified;
  - Management override of controls – no issues had been identified;
- **Demolition costs** – Mr Bishop confirmed that audit testing highlighted the fact that the estimated costs of demolishing the buildings on the BRC had increased in the current year due to the discovery of asbestos on the site. Members noted that GT had confirmed that the additional costs of £195k had not been materially misstated;
- **Going Concern** – there were no significant uncertainties in relation to the going concern position through to December 2016;
- **Unadjusted misstatements** – were reviewed and noted;
- **Journal entries** – It had been recommended that any journals that the Director of

Finance may be required to post in the future be reviewed by an appropriate member of the management team.

Mr Bishop confirmed that no significant 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 9<sup>th</sup> December 2015.**

#### **43/15 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'. In addition, members were provided with a list of current contracts of significant value that had been subject to review in-year that was provided as Appendix A to the paper.

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

#### **44/15 Review of Internal Audit Recommendations – November 2015 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 and requested that it be made clear in the final column when an action had been completed.

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

#### **45/15 Review of Performance of Internal Audit Service Provider**

Members of the Committee received the 2014/2015 Performance Assessment for the Internal Audit Service Provider. In addition, members were asked to consider and agree performance indicators for the 2015/2016 year.

Mrs Robinson spoke to the paper and expressed one minor concern regarding the timely confirmation of dates of internal audit visits. Members agreed that the quality of the documentation and output had significantly improved compared to the previous internal audit service provider. In addition, members requested that Mr Clarke, Director of Mazars, be present at the autumn term Audit Committee meeting in future for the annual audit opinion.

**Governors reviewed the performance assessment of the Internal Audit Service provider and noted the issues which had been raised. Members of the Committee agreed to the continued use of the performance questionnaires and performance indicators for 2015/2016.**

#### **46/15 Contract for Internal Audit Services**

Members of the Committee received a paper on the Contract for Internal Audit Services. Following consideration of the performance of the Internal Audit Service provider for 2014/2015 at the previous agenda item, members of the Audit Committee agreed to recommend the re-appointment of Mazars for a further year to run from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2016.

**Members of the Audit Committee formally recommended the re-appointment of Mazars**

**as the Internal Audit Service Provider to the full Corporation for approval at its meeting on the 9<sup>th</sup> December 2015 for a further year to run from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2016.**

**47/15 Date of next meeting**

It was noted that the next meeting was scheduled to take place on **16<sup>th</sup> March 2016 at 5.30 pm**

At the end of the meeting the Principal extended thanks and best wishes to Steve Carter for his chairmanship of the Audit Committee and for his valuable contribution during his 6 years' service to the Board.