FAREHAM COLLEGE

# AUDIT COMMITTEE

21st March 2017

# M I N U T E S

Present: Mrs J Lancaster

 Mr A Spires

Dr C Thomas

Mr A Wilkins

In attendance: Mr N Duncan (Principal)

Mrs E Baxter (Director of Finance & Funding)

Mr L Newman (Mazars)

 Mrs J Eayrs (Clerk)

**01/17 Briefing: Implications for FE arising from the Spring Budget**

 The Principal provided members of the Committee with a briefing on the implications for FE arising from the Spring Budget which included:

* Phased investment of up to £500million up to 2021;
* The Government’s acceptance in full of the Sainsbury Report published in October 2016;
* The establishment of Institutes of Technology;
* The development of the ‘T’ level.

**02/17 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.

**03/17 Apologies for absence**

Apologies for absence were received and accepted from Mr Bishop and Mr Nicholls from Grant Thornton and Mr Rudd. Members noted that Mr Newman from Mazars was running late but was expected. As a result, the sequence of items on the agenda to be considered by the Committee was adjusted.

**04/17 Minutes of the meeting held on the 21st November 2016**

 The minutes of the meeting held on the 21st November 2016 were agreed as a true and accurate record and were signed by the Chair.

**05/17 Matters arising from the minutes of the meeting held on the 21st November 2017**

(i) **Minute 43/16: Internal Audit Annual Report** - The Chair reiterated the Audit Committee’s expectation that the Director of Mazars be in attendance at the Autumn term committee meeting for the annual audit opinion. Mr Newman agreed to feed this back to the Director;

(ii) **Minute 44/16: SFA Learner Number Funding Audit** – Members had agreed that an action plan would be drawn up and presented at the March 2017 meeting. The Director Finance & Funding explained that this action had been superseded by an internal audit review. She added that many of the issues raised in the Funding Audit had already been implemented and any outstanding actions would be captured as part of the internal audit tracking/follow-up work;

(iii) **Minute 45/16: Internal Audit Strategy and Operational Audit Plan** – Members had previously agreed that a Risk Management workshop should be provided by Mazars for SMT members and that Mr Canham would liaise with the Director (F&F) regarding the arrangements for this. Mr Newman advised the Committee that Mazars had a specialist Risk Management team at Mazars and he agreed to facilitate the arrangements for the work shop;

(iv) **Minute 48/16: Review of Internal Audit Recommendations** – Members had previously agreed that they did not wish to review ‘priority 3’ (housekeeping) recommendations. In addition, it was requested that, where a deadline had lapsed, a proposed new deadline and an update on the current position be provided. Members acknowledged that the requested changes to the ‘tracking’ document had been implemented.

**06/17 Correspondence**

**(i) SFA Letter dated 10th March 2017** – Members of the Committee received a letter from the SFA in connection with the Fareham College Financial Statements 2015/2016 and the Financial Health assessment. Members noted that, following a review of the College’s audited financial statements and finance record, the SFA had concluded that the appropriate assessment grade for 2015/2016 was ‘Good’.

**07/17 Termly Risk Management Report**

 Members of the Committee received the College Risk Register which provided an update of the College’s current risk exposure, provided assurance that risks had been evaluated and which outlined the mitigation which had been put in place to reduce the risks identified. The Principal spoke to the paper and advised members that the Risk Register currently held 38 risks with an overall residual net risk of 6.5.

 The committee reviewed, considered and discussed the following key risks and the mitigation in place to reduce them:

* **Risk 3: Lack of Pay award could have staffing implications – recruitment of lower quality staff** – The Principal confirmed that, based on affordability, no pay award would be made during the 2016/2017 year. Members noted that alternative ways to reward the staff continued to be explored;
* **Risk 8: Solent Leadership Academy project underperforms leading to loss of income and reputation** – Members noted that recruitment stood at 57 against an LEP target of 200 by the end of December 2016. In addition, spend against profile was behind schedule and, as a result, the LEP had withheld the final payment of Employer Ownership of Skills grant funding;
* **Risk 9 & 10: Serious IT Infrastructure failure** – Members were aware that these risks had reduced and were being managed through the recently appointed Head of Technical Services;
* **Risk 20: Inability to provide accommodation to meet student uptake at CEMAST** - Members were advised that CEMAST was showing some signs of accommodation issues. The Principal outlined a number of options which were currently being explored which included the reconfiguration of existing facilities to include an Aero Workshop and Concourse drop-in IT suite and the purchase of land to the north of CEMAST with a view to making use of existing buildings initially and to develop plans for a new build for HE in the future;
* **Risk 21: Turnover of senior management leading to loss of strategic vision** – The Principal outlined the changes to the structural responsibilities which had been implemented since the loss of the Director Teaching, Learning and Assessment;
* **An over-reliance on subcontracting activity of 16-18 part-time numbers, apprenticeships and ASB funding with inherent risks e.g. quality, reputation, funding, management and organisational dependency** – The Principal outlined the position regarding the review of arrangements which had been initiated for the College’s largest subcontractor Steve Willis.

 **Members of the Committee reviewed and noted the contents of the paper and the mitigation in place to reduce the risks identified.**

**08/17 Internal Audit Progress Report for Year Ended 31 July 2017**

 Members of the Committee received an Internal Audit Progress Report which provided a progress update to the Committee in respect of the Internal Audit Strategy and Operational Plan for the year ended 31 July 2017. Mr Newman, Mazars, spoke to the report and referred members to:

* Section 2 of the paper which provided a summary of activity since the last Audit Committee meeting;
* Section 3, which highlighted the key issues arising from the internal audit programme to date; and
* Appendix A1 which outlined progress made against the 2016/2017 Plan.

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

**09/17 Internal Audit Report Subcontracting Controls (01. 16/17)**

 Members of the Committee received the Internal Audit Report Subcontracting Controls (01. 16/17). The scope of the audit visit had been to review the design and operation of the systems and controls for managing subcontracted delivery for the Academic year 2016/2017 in accordance with the Skills Funding Agency (SFA) “Providing external assurance on sub-contracting controls” document dated September 2015.

Members had previously been advised that the SFA required lead providers that subcontracted more than a defined level of provision in any academic year to obtain a report from an external auditor to provide assurance on the arrangements in place to manage and control the subcontractors. An ‘external auditor’ was defined as a professionally qualified person from an organisation external to you that was able to provide an external independent report on systems and controls and who was registered with an appropriate body.

 Members noted that the focus of the internal audit visit had been on the SFA minimum requirements which had specifically included:

* General subcontracting requirements;
* Selection and procurement;
* Entering into a subcontract;
* Monitoring;
* Section level subcontracting;
* Reporting on subcontracting; and
* Fees and charges.

The Committee were advised that, once the IA report had been completed, the Accounting Officer or senior responsible person was required to review it and complete a certificate confirming the report had provided ‘satisfactory assurance’ on the systems and controls in place to manage subcontractors delivering education and training funded by the SFA. Members noted that, at the time of writing the Internal Audit Report, SFA guidance for 2016/2017 including any requirement for a certificate and timescales was awaited.

 Members were advised that an overall assurance opinion was not provided but in conducting the review seven of the ten recommendations arising from the work conducted in 2015/2016 had been implemented. The three remaining recommendations were considered as either not implemented or as work in progress. Three new recommendations had been made as part of the 2016/2017 review one of which was ‘priority 2’ (Significant) and two ‘priority 3’ (Housekeeping).

 In addition, Mrs Baxter referred members to recommendation 4.4 on page 9 of the report. She stated that the recommendation had referred to a check of financial health and it had been agreed that the Statutory Accounts of the each sub-contractor would be reviewed. Mrs Baxter highlighted the fact that the current subcontractors had sent their statutory accounts and as a result the status of ‘not implemented’ seemed unfair. Mr Newman accepted Mrs Baxter’s view and it was agreed that the status would be changed to ‘in progress’.

Members of the Committee reviewed and noted the management responses and the actions in train to address the issues identified.

**Members of the Committee reviewed and noted the contents of the Internal Audit Report, the recommendations which had been made and the management responses to address the issues raised by the audit visit.**

**10/17 Internal Audit Report: HR: Recruitment and success planning (02.16/17)**

 Members of the Committee received the Internal Audit Report HR: Recruitment and succession planning (02.16/17). Members noted that the scope of the audit visit had been to review the key controls and processes within the College for HR Recruitment, Retention and Succession Planning. In addition, it was noted that this area had not been subject to internal audit review during the last three years.

Members noted that the ‘substantial assurance’ had been given for the review with only one ‘priority 3’ (Housekeeping) recommendation having been made which related to storing letters confirming the end of a probationary period on the HR file of the member of staff. Members of the Committee noted the management response and the actions in train to address the issue identified.

**Members of the Committee reviewed and noted the contents of the Internal Audit Report, the recommendation which had been made and the management responses to address the issues raised by the audit visit.**

**11/17 Internal Audit Report Follow-up (03.16/17)**

 Members of the Committee received the Internal Audit Report Follow-up (03.16/17) which provided a summary of the progress made by the College in implementing internal audit recommendations from prior years.

Members noted that the audit areas considered as part of the follow-up review included:

* Follow-up (report 02.15/16);
* Business Continuity Planning (03.15/16);
* Quality Management Systems (04.15/16);
* Core Financial Systems – Debt and Cash Management (06/15/16).

Members noted that the recommendations arising from the review of Subcontracting Controls (01.15/16) and Learner Number Systems (05.15/16) would be followed up as part of the specific review of these areas which formed part of the 2016/2017 Internal Audit Plan.

Members were advised that there had been a total of 14 recommendations accepted by Management within the reports referred to above. Of those 14 recommendations, seven had been categorised as ‘priority 2’ (Significant) and the remaining seven categorised at ‘priority 3’ (Housekeeping). Members noted the status of implementation of these recommendations as 50% implemented and 50% in progress.

**Members of the Committee reviewed and noted the contents of the Internal Audit Follow-up Report.**

**12/16 Review of Performance of External Auditors for the Year 2016/2017 and establishment of performance indicators for the year 2017/2018**

 Members of the Committee received and reviewed the proposed assessment of performance for 2016/2017 for the Regularity and Financial Statements Audit Service Provider (for work completed on the financial statements year ending 31 July 2016). Members noted there were no significant issues of concern and agreed to recommend Grant Thornton for re-appointment for a further year. In addition, members endorsed the continued use of the current performance questionnaire and the performance indicators enshrined within them for the 2017/2018 year.

**13/17 Contract for External Audit Service Provider**

 Members of the Committee received a paper on the Contract for External Audit Services. Members were aware that the current External Audit contract with Grant Thornton had been awarded in June 2010 following a tender exercise. Although the initial 3 year contract term had come to an end in 2013, the Audit Committee had continued to consider the contract on an annual basis.

 Members of the Committee had reviewed the performance of the External Auditors under a previous agenda item and had noted that there were no issues of concern.

 **Members of the Committee agreed to formally recommend the re-appointment of Grant Thornton as the External Audit Service Provider** **to the full Corporation for formal approval at its meeting on the 5th April 2017 for a further financial year to run from 1st August 2017 to 31st July 2018.**

**14/17. Review of Internal Audit Recommendations**

Members of the Committee received the Internal Audit recommendations as part of the ‘tracking’ system which had been established to monitor progress. Members reviewed and accepted the proposed actions, the target dates for achievement and the actions which had been completed.

 **Members reviewed the contents of the paper and noted the progress achieved to date and the actions in train to address the remaining audit recommendations.**

**15/17 Date of next meeting**

 Members noted that the next meeting of the Audit Committee would take place on 13th June 2017 at 5.30pm.

**Post minute note:** The date of the next meeting was subsequently changed to Thursday 8th June 2017 at 5.30pm.