FAREHAM COLLEGE

# **AUDIT COMMITTEE**

21st November 2016

# **M I N U T E S**

Present: Mrs J Lancaster

 Mr T Rudd

 Mr A Spires

 Mr C Thomas

 Mr A Wilkins (telephone conference call)

In attendance: Mr N Duncan (Principal)

 Mrs E Baxter (Director of Finance & Funding)

 Mr M Bishop (Grant Thornton)

 Mr R Nicholls (Grant Thornton)

 Mr D Canham (Mazars)

 Mrs C Barrow (Minutes Secretary)

**37/16 Pre-meeting with Financial Statements Auditor**

 Members of the Audit Committee met privately with the Financial Statements Auditors, Grant Thornton, 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 Baxter, were invited to join the meeting. The Chair briefly outlined the discussions which had taken place and confirmed that Grant Thornton had reported that the audit had gone extremely smoothly and there had been no issues of concern.

*Executive/management officers were invited to join the meeting at this point.*

**38/16 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.

**39/16 Apologies for absence**

There were no apologies for absence although members noted that the Clerk had been called away unexpectedly on a personal family matter. Mrs C Barrow attended the meeting as the Minutes Secretary and the Chair welcomed her to the meeting.

**40/16 Minutes of the meeting held on the 21st June 2016**

 The minutes of the meeting held on the 21st June 2016 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.

**41/16 Correspondence**

 There was no correspondence.

**42/16 Annual Report of the Risk Management Group – November 2015**

 Members of the Committee received the Annual Report of the Risk Management Group – November 2016. 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 risk management workshops had been held throughout the 2015/2016 year and the register had been updated monthly from September 2015 to May 2016. He went on to say that the last workshop had taken place on the 10th November 2016. Members noted that the Annual Report would be presented to the full Board at its meeting on the 7th December 2016.

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 key risk themes which had been considered during the 2015/2016 year which had included:

* Student Numbers and Allied Funding;
* OFSTED;
* Middle management capability and capacity;
* IT Capacity and capability;
* Bishopsfield Road Campus (BRC) development.

In addition, 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.

 In presenting the Risk Register, the Principal drew the following ‘high and very high risks’ to members’ attention:

1. **Risk 4: Lack of pay award** – Members discussed the potential staffing implications arising from not making a pay award and the Principal outlined the discussions which had taken place at the F&R Committee the previous week. Members were advised that the Executive Director HR was currently exploring alternative ‘non-pay’ ways to reward the staff and a paper outlining a number of options would be presented to the full Corporation at its meeting on the 7th December 2016;
2. **Risk 9: Serious IT infrastructure failure** – The Principal advised the Committee that a thorough review of the IT Services team was currently in train and the risk was being managed through the recently appointed Head of Technical Services and the use of external consultancy (Taylor Made);
3. **Risk 12: Failure to recruit sufficient apprentices to meet the growth plan** – The Principal reminded members that the success of the growth plan within the budget was reliant on the successful recruitment of 1000 apprentices. Members discussed the implications of the introduction of the levy in April 2017 and the risk associated with the transition period. Members were reminded that the College was trying to diversify its income and was currently exploring international and commercial opportunities;
4. **Risk 22**: **Turnover of senior management** – The Principal advised members that, although he did not have any particular concerns regarding this risk, the Director for Teaching, Learning and Quality had resigned and would be leaving College at the end of term. He also outlined a number of middle-management changes which were currently being implemented;
5. **Risk 23: Failure to recruit International students** – The Principal confirmed that the College was still waiting to hear if it had been awarded the Tier4 Licence. He outlined the lengthy process to date and advised the Committee that he had spoken to the UKVI that day and a decision was expected within the next two weeks;
6. **Risk 25**: **High interest in new engineering college in Portsmouth (UTC)** – The Principal confirmed that the UTC was not now opening until September 2017. He went on to say that although this did not pose a major risk it could impact on the Level 3 Aeronautical Engineering courses at CEMAST and the situation, particularly recruitment, would be monitored closely;
7. **Risk 26**: **An over reliance on sub-contracting activity** – The Principal confirmed that the College had reduced the number of subcontractors down to four. He outlined the potential impact of the introduction of the Grant and Levy due to take effect in April 2017 and, in particular, the change in relationship and the need for the College to register to be able to access funding from the SFA in the future;
8. **Risk 33**: **Issue with the administration of EHCP process at County level** – Mrs Lancaster, Learning Support Manager, outlined for the Committee of the delays being experienced with HCC regarding the EHCP process and accessing High Needs Student funding;
9. **Risk 39**: **Finance** – Members noted that the 2015/2016 year-end final out-turn position reflected a £200k deficit. The Director for Finance and Funding explained that this related mainly to one-off capital costs (demolition) from the previous year, additional expenditure related to the removal of asbestos as well as the additional support staff pension costs as a result of the LGPS de-coupling from HCC;

The Principal advised members that Ofsted remained a risk in view of the fact that our strategic aim was to be ‘outstanding’ by 2017. He went on to say that the English and Maths profile remained ‘spikey’ but generally success in curriculum areas was being maintained and work experience improvements had been secured.

The Principal concluded by advising the Committee of a separate BRC development risk register which had been developed and which outlined the remaining 53 areas of ‘snagging’ currently outstanding. He outlined a particular issue related to the deterioration of paving slabs around the site. Governors questioned whether legal action would be taken against the contractor and the Principal responded by saying that, at this stage, he had been advised not to escalate the situation but to continue to try to resolve the matter amicably but to ensure the work was completed before any final payment was made.

**Members of the Audit Committee reviewed and endorsed the Risk Register and agreed that it improved each time it was presented. In addition, the Committee agreed to recommend to the Corporation that the College’s Risk Management arrangements were adequate to enable the Corporation to discharge its duties.**

**43/16 Internal Audit Annual Report 2015/2016**

Members of the Committee had received the Internal Audit Annual Report 2015/2016. The Chair expressed the view that he would have expected the Director of Mazars, Mr Clarke, to attend this particular meeting for the annual audit opinion.

The Chair invited Mr Canham, Mazars, to present the report and, in doing so, he drew the following to members’ attention:

* **Internal Audit Service** – The College had chosen to retain a full scope internal audit service for 2015/2016 which enabled Mazars to provide an Annual Opinion on the College’s arrangements for risk management, internal control and governance;
* **Purpose of Internal Audit** – The purpose of internal audit was to provide the Corporation, through the Audit Committee and the Principal (as Accounting Officer), with an independent and objective opinion on risk management, control and governance and the College’s effectiveness in achieving its agreed objectives;
* **Internal Audit Work undertaken in 2015/2016** – Members were referred to page 1 of the report which outlined the number of days approved for the Plan during 2015/2016. Mr Canham confirmed that 26 days (including 3 days follow-up, 4 days Audit Management) had originally been agreed by the Audit Committee at its meeting on the 16th March 2016. Members noted that, during the period, the days planned for the review of Learner Number Systems was reduced from 7 days to 3 to accommodate the need to complete a Subcontracting Controls review (4 days) which had become a requirement introduced by the SFA for all Lead Providers who contracted over £100k of their funding. In addition, members noted that all audits in the Plan had been completed during the period. The Chair questioned how the number of contracted days compared to colleges of a similar size. Mr Canham responded by saying that smaller colleges tended to be around 26 days and large colleges tended to be around 40 days;
* **Summary of Internal Audit Work undertaken in 2015/2016** – Mr Canham explained that, although certain weaknesses and exceptions had been highlighted by the audit work completed, none of the issues identified had been considered fundamental. He referred members to page 11 of the report which provided a detailed summary of the internal audit work undertaken during 2015/2016:
- Subcontracting – Satisfactory;
- Business Continuity Planning – Adequate;
- Quality Management Systems – Substantial;
- Learner Number Systems – Adequate;
- Core Financial Systems: Debt & cash management – Adequate.
* **Priority 2 Recommendations** – Members reviewed and noted the summary of priority 2 recommendations provided at Appendix A2 to the report;
* **Performance of Internal Audit** – Members noted the programme of quality measures used by Mazars to ensure the quality of the internal audit work performed. The report confirmed that no survey results had been returned during the year and the Chair stated that he felt it was important to ensure that this information was provided;
* **Benchmarking** – Members reviewed and discussed the benchmarking data provided which compared the Assurance Levels and categorisation of recommendations made at the College and the Mazars FE College Client Base. Governors considered the usefulness of the data when the comparisons being made were not ‘like for like’. At the end of the discussion, members of the Committee accepted that the audit work undertaken at each college would vary but, overall, the information provided was useful as a broad indicator of performance relative to the sector. In addition, it was felt that the areas deemed ‘inadequate’ were common in colleges across the sector;
* **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.

 **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 7th December 2016.**

**44/16 SFA Learner Number Funding Audit**

Members of the Committee received the SFA Learner Number Funding Audit Report. The Principal spoke to the report and confirmed that the College had not been identified to receive a Learner Number Funding Audit due to SFA concerns about the College but merely as a supplementary college to be used for benchmarking information. He went on to say that the Funding Audit had been thorough and had identified a number of shortfalls in College systems which needed to be addressed. Members were referred to the Reconciliation Statement attached as Annex A to the Report and the Principal confirmed that the adjustments had been made.

 Members reviewed and discussed the issues which had arisen from the Funding Audit. Members noted that management responses had not yet been provided and it was agreed that an action plan would be drawn up and presented at the next meeting so that actions could be monitored until complete.

 **Members of the Committee reviewed and noted the contents of the SFA Funding Assurance Review and agreed that an action plan of the recommendations arising from the review would be presented at the next meeting of the Committee.**

**45/16 Internal Audit Strategy and Operational Audit Plan 2016/2017**

 Members of the Committee received the Internal Audit Strategy and Operational Audit Plan 2016/2017 for discussion and review. Mr Canham, Mazars, spoke to the report and highlighted the fact that the updated Strategic Audit Plan/Operational Audit Plan 2016/2017 had been informed by:

* Liaison with the Director of Finance and Funding and discussions at the June 2016 Audit Committee meeting;
* A review of the key areas highlighted in the College Risk Register;
* Work conducted during 2015/2016.

As a result, the Operational Audit Plan 2016/2017 would be as follows:

* HR: Recruitment, Retention and Succession Planning – 4 days;
* Learner number systems – 3 days;
* Extended follow-up: to include the SFA Funding Assurance Review, sub-contracting, BCP; debt and cash management – 3 days
* Learner journey – 4 days;
* Core financial systems – 5 days;
* Audit management – 4 days.

There was a brief discussion about a Risk Management workshop, for SMT, to be provided by Mazars and it was agreed that Mr Canham would liaise with the Director for Finance and Funding regarding the arrangements for this.

**46/16 Annual Report of the Audit Committee to the Corporation and Principal of Fareham College: Financial Year 2015/2016**

Members of the Committee had received the Draft Annual Report of the Audit Committee of Fareham College which had been prepared by the Clerk on behalf of the Committee. Members reviewed the contents of the report which outlined the work of the Audit Committee during the 2015/2016 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 7th December 2016 for formal approval.**

**47/16 Financial Statements 2015/2016**

**(i) Financial Statements:**

 Members of the Audit Committee had received a copy of the Financial Statements Year Ended 31 July 2016 for discussion and review. The Committee requested that thanks be extended to the Director for Finance & Funding and her team for all their hard work during the audit process and for the fantastic outcome.

The Director of Finance and Funding 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 16th November 2016;
* FRS102 had now come into effect and the Casterbridge model format adopted;
* The statement of income reflected a deficit position. Mrs Baxter reminded members that this was due to unexpected costs in respect of demolition costs and additional pension charges;
* Members were advised that the process had been as smooth this year as the previous year;
* Governors provided feedback on a number of minor amendments to be incorporated into the version presented to the full Corporation;
* Members discussed the commentary and considered whether too much information was being provided. Mrs Baxter responded by advising members that the Statutory Accounts were a public document (from 1st January in any year) and followed the Casterbridge model format and the commentary provided was in the interests of the Nolan principles of openness and transparency. Members proposed that Mrs Baxter may wish to review the commentary of other colleges to compare the information provided.

**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 7th December 2016 with the inclusion of the proposed minor amendments.**

**(ii) Self-Assessment Questionnaire** - Members of the Committee received the Self-Assessment Questionnaire for consideration and review. The Director of Finance and Funding advised the Committee that the document had been considered by the Finance and Resources Committee at its meeting on the 16th November 2016 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 7th December 2016.**

**(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 7th December 2016.

**(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:
- Signed Letter of representation;
- Final funding confirmation;
- Signed self-assessment questionnaire;
* 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;
- FRS102 conversion;
* **Going Concern** – From the review the External Audit Service provider confirmed that they did not see any issues which would threaten the College’s going concern position through to December 2017;
* **Governors** provided feedback on the information provided on page 5 of the report and requested that the description of risk be expanded for each comment;

 Mr Bishop confirmed that no significant issues had been identified to report to the Committee. He extended his thanks to the Director for Finance and Funding and her team for their co-operation with the audit and endorsed the outcome as an excellent achievement.

 **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 7th December 2016.**

**48/16 Review of Internal Audit Recommendations – November 2016 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 confirmed that they did not wish to review ‘priority 3’ (housekeeping) recommendations. In addition, the Chair requested that, where a deadline had lapsed, it would be useful to have a proposed new deadline and an update on the current position. It was also proposed that a summary ‘snap shot’ would be useful for the Committee to review.

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

**49/16 Date of next meeting**

 It was noted that the next meeting was scheduled to take place on **21st March 2017 at 5.30 pm**