# AUDIT COMMITTEE

8th June 2017

# M I N U T E S

Present: Dr C Thomas

 Mr A Spires (Chair)

In attendance: Mrs E Baxter (Director of Finance & Funding)

 Mr Mark Bishop (GT – telephone conference call)

 Mr D Canham (Mazars)

 Mr G Clarke (Mazars)

Mr N Duncan (Principal)

 Mrs J Eayrs (Clerk)

**16/17 Presentation on Recruitment, Relationships and Reputation**

Members of the Committee received a presentation on Recruitment, Relationships and Reputation. The Principal outlined discussions which had taken place at the Strategic Plan Review session which had been held on the 2nd May 2017, in particular:

* The increased emphasis on recruitment within the updated Strategic Plan;
* The pursuit of grant based capital investment. Members were advised that the Estates Services Team had been restructured to release the Estates Services Manager to seek to access any available funds;
* The need to strengthen the apprenticeship provision. Members were reminded of the in-year target growth of £555k in the 2017/2018 Budget;
* The need to strengthen the HE provision;
* Further development of curriculum focus and consideration of the option to specialise;
* The need to diversify income streams;
* The need to continually review the staffing profile to ensure sector demands could be met;
* To develop the organisation to ensure it can constantly adapt to change.

*At this stage members present agreed to take agenda item 9(i), The Audit Plan for the year ending 31 July 2017.*

**17/17 The Audit Plan for the year ending 31 July 2017**

 Members of the Committee received the Grant Thornton Audit Plan for the year ending 31 July 2017. Mr Bishop, Engagement Leader GT, drew members’ attention to GT’s understanding of the principal business issues related to the College as follows:

 **Financial Position:**

* The College was currently expecting to record a deficit in the current year and forecast results were behind the budget figures;
* Total income was expected to be behind budget mainly due to lower than expected EFA funding and a decline in apprenticeship recruitment which had been offset by advance learner loans and continued cost savings compared to budget;
* The Accounts were expected to be prepared on a ‘going concern’ basis;

**Significant risks identified as defined by professional standards:**

* The incorrect recognition of revenue streams;
* Management over-ride of controls exist.

**Reasonably possible risks identified:**

* Employment costs may be materially misstated;
* Recorded debtors do not exist and allowance for doubtful accounts is not adequate;
* Completeness of creditors and accruals;
* Valuation of the pensions assets and liabilities have not been accurately recorded;
* Loan covenants not met – Members were reminded that the covenants were expected to be breached in 2016/2017 and 2017/2018 at year-end due to the repayment and refinancing of the LEP loan. Mr Bishop confirmed that GT would obtain and review the waiver letter from the Bank that had been received.

Members questioned whether there had been any impact in terms of changing the financial system. Mrs Baxter confirmed that this was the first year of having the new system for a full year and, as a result, many ‘issues’ had been resolved the previous year.

There was a brief discussion about the financial challenges facing the sector. Mr Bishop confirmed that the College was not in a critical position and, in fact, was in a much ‘healthier’ position than many other colleges albeit the next twelve months would present significant challenge.

Dr Thomas queried the level of fee for the annual certification. Mrs Baxter clarified the position and confirmed that this was not required by Santander but if the College chose to have this work undertaken the related cost was as specified.

**Members of the Audit Committee reviewed and noted the contents of the Audit Plan for the year ending 31 July 2017.**

**18/17 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.

**19/17 Apologies for absence**

 Apologies for absence were received and accepted from Mrs Lancaster, Mr Rudd and Mr Wilkins.

**20/17 Minutes of the meeting held on the 21st March 2017**

 The minutes of the meeting held on the 21st March 2017 were agreed as a true and accurate record and were signed by the Chair.

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

1. **Minute 05/17(i): Internal Audit Annual Report** – The Committee had previously requested that Mr Clarke, Director of Mazars, be in attendance at the Autumn term meeting of the Committee for the annual audit opinion. Members noted that Mr Clarke was present;
2. **Minute 05/179ii): Internal Audit Strategy and Operational Audit Plan 2016/2017 –** Members had previously agreed that a Risk Management workshop should be provided by Mazars for SMT members and the Committee and that Mr Canham would liaise with the Director (F&F) regarding the arrangements for this. Mrs Baxter confirmed that there had been an exchange of emails but a date was still to be finalised. There was a brief discussion about potential dates and it was acknowledged that the summer vacation period would present issues regarding the availability of the SMT members. Members proposed that the workshop be delayed until the autumn term and that it should, perhaps, take place directly prior to the Audit Committee meeting scheduled for the 29th November 2017.

**22/17 Correspondence**

 There was no correspondence.

**23/17 Risk Management Policy and Termly Update on Risk Management – June 2016**

Members of the Committee received the full College Risk Register. The Principal provided a verbal briefing for Governors and outlined the College’s current risk exposure and provided assurance that the risks had been evaluated and mitigation actions agreed. In particular, he drew the following to members’ attention:

(i) **Risk 1: Poor student attendance leading to non-achievement, poor success rates and OFSTED grading** – Members were reminded that an Attendance Strategy had been developed with all HODs and PMs targeting students with less than 75% attendance;

(ii) **Risk 3: Poor FT and PT recruitment leads to a decline in funding** – Members noted that net applications for 2017/2018 were just above those recruited at the same time the previous year. The Principal went on to say that significant focus was being put on internal/progressing students;

(iii) **Risk 8: Lack of capacity within curriculum middle-management team** – Members were advised that 3 management posts had been formally integrated into two roles to make two bigger departments (Creative Industries and Service Industries). Members noted that recruitment for these posts was currently underway;

(iv) **Risk 9: Solent Leadership Academy project underperforms leading to loss of income and reputation** – Members noted that the Solent LEP had confirmed that they would not release the final grant payment;

(v) **Risk 18: Financial position deteriorates leading to a decline in the College’s financial health grade** – Members noted that the forecast out-turn position for 2016/2017 was circa £600k. The Principal outlined the robust discussions which had taken place at the Finance and Resources Committee the previous evening;

(v) **Risk 23: Property – inability to provide accommodation to meet student uptake at CEMAST** – The Principal outlined the options currently being explored to alleviate the accommodation issues being experienced at CEMAST;

(vi) **Risk 25: Strategic: Failure to recruit international students leading to a loss of diversified income and potential reputational impact** – Members noted that the Manchester terrorist attack had weakened the market and the appetite to come to the UK. Actions were in train to recover the position;

(vii) **Risk 29: There is a risk of terrorist attack leading to loss and life, injury and collateral damage** – Members noted that initial Lockdown testing had been successful with further rehearsals at BRC and CEMAST being planned for later in the term.

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

**24/17 Internal Audit Progress Report for the year ended 31 July 2017**

 Members of the Committee received and noted the Internal Audit Progress Report for the year ended 31 July 2017. Mr Clarke, Mazars, spoke to the report and confirmed that all the field work had now been completed for the year. Members noted that one final internal audit report on the new Finance System had been sent to the College the previous day for management responses to be made. The Committee acknowledged that the finalised report including management responses would be presented to the November 2017 meeting.

**25/17 Internal Audit Report – Learner Journey (04.16/17)**

Members of the Committee received the Internal Audit Report for Learner Journey review which had taken place in April 2017. Mr Canham spoke to the report and explained that the audit had included a review of the key controls and processes with respect to the College’s Learner Journey which included from initial contact at application to attendance at the College and the timescales for these processes with a particular focus on the identification and application of learner support requirements.

Members were delighted to note that ‘Substantial Assurance’ had been given and only five ‘housekeeping’ recommendations had been made which related to:

* The development of a formal strategy or procedure for schools liaison;
* Review of progress against targets;
* Review of previous recruitment cycles;
* The development of a Keeping Warm Strategy and Process.

Members of the Committee reviewed each of the recommendations which had been made and noted the management responses, the deadlines and the actions in train to address the issues raised by the internal audit report.

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

**26/17 Internal Audit Report: Learner Number Systems: Extended Follow-up (05. 16/17)**

Members of the Committee received the Internal Audit Report for Learner Number Systems: Extended Follow-up (05.16/17). Mr Canham spoke to the report and explained that, the original Internal Audit Plan for 2016/2017 had provided for an in depth review of Learner Number Systems. However, post issue of the Plan the College had been notified and subjected to an SFA Funding Assurance Review covering both SFA and EFA funding in respect of its 2015/2016 funding claims. In light of the SFA review and corresponding findings, the scope of the internal audit work had been amended to a Follow-up of recommendations made within the 2015/2016 Internal Audit review from June 2016 (report 05.15/16 refers) and recommendations arising from the SFA Funding Assurance Review.

The Committee noted that, in undertaking the review Mazars had run a series of Provider Data Self-Assessment Toolkit (PDSAT) reports using the College’s data to identify whether recommendations in the reports had been implemented. Members reviewed Section 4 of the report which outlined those recommendations in progress or not implemented. In addition, members noted that nine recommendations had been carried forward. The Chair expressed concern that this number appeared higher than would have been expected. The Director Finance & Funding explained that some of the recommendations across the two audit reports had been duplicated and it was disappointing that, between the original visits and May, matters had not been progressed. However, she went on to confirm that actions were now in train to implement the outstanding recommendations. Mr Canham, Mazars, confirmed that there were no serious issues of concern.

Members of the Committee reviewed each of the recommendations which had been made and noted the management responses, the deadlines and the actions in train to address the issues raised by the internal audit report.

**Members of the Committee reviewed and noted the contents of the Internal Audit Report: Learner Number Systems: Extended Follow-up, the recommendations which had been made and the management responses to address the issues identified by the audit visit.**

**27/17 Internal Audit Strategy and Operational Audit Plan 2017/2018**

Members of the Committee received the Internal Audit Strategy and Operational Audit Plan for 2017/2018 for discussion and review. Mr Canham, Mazars, spoke to the report and drew members’ attention to page one of the report which provided background information and outlined the scope and purpose of internal audit.

The Strategic Audit Plan had been provided at Appendix A1 to the report and had been compiled based on the high level risk areas identified in the risk register.

**Members of the Committee reviewed the document and provided feedback on the scope of business areas and the proposed number of contracted days for inclusion in the Audit Plan for 2017/2018 due to be presented to the Autumn term meeting of the Committee.**

**28/17 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.

 Mrs Baxter, Director of Finance and Funding, spoke to the paper and advised members that four recommendations had been completed since the last review with 7 recommendations still ‘in progress’.

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

**29/17 Review of Performance of Internal Audit Service Provider 2016/2017**

 Members of the Committee reviewed the performance of the Internal Audit Service Provider for 2016/2017. No key issues of concern were raised. However, the Committee requested that a schedule of target dates for the publication of finalised Internal Audit Reports be enshrined into Appendix A1 of the Annual Plan to ensure timely publication of documents to be provided for Committee meetings. In addition, it was agreed to revise the performance review questionnaire to include specific questions related to this aspect of the internal audit service.

 **Governors reviewed the performance assessment of the Internal Audit Service Provider for 2016/2017 and agreed actions as outlined above to address the issues which had been raised.**

**30/17 Annual Review of Whistle Blowing Policy and Bribery Policy**

 Members of the Committee received a paper on the Annual Review of Whistle Blowing Policy and Bribery Policy. Members were reminded that both policies were enshrined within the College’s Financial Regulations and, as a result, were reviewed by the Director of Finance and Funding annually as part of that review process. Members were advised that a separate review of both policies had been undertaken by the Director of Finance and Funding and no changes were proposed at this time. However, members noted that a full review of all policies enshrined within the Financial Regulations would be completed during the summer vacation period for consideration at the Autumn term meeting of the Finance and Resources Committee.

 Members were invited to comment and provide feedback on both policies to inform the next review process which would be completed during the summer vacation period.

 **Members of the Committee reviewed the contents of the paper, noted the arrangements for the summer review and that there had been no incidents of whistle blowing or bribery reported during the 2016/2017 year.**

**31/17 Review of the Operation of the Audit Committee**

 The Committee received a paper on the Operation of the Audit Committee for members’ consideration. Members had previously agreed to review these arrangements on an annual basis and had acknowledged that it was seen as ‘good practice’ to meet privately with the External Auditors when considering the Statutory Accounts at the autumn term meeting each year. In addition, the Committee had previously agreed to reserve the right to meet privately with the Internal Auditors at the spring and summer term meetings if required.

 **Members considered the contents of the paper and agreed to continue with the existing operating arrangements for the Committee as outlined above.**

**32/17 Annual Review of Performance for Committees of the Corporation 2016/2017**

 Members of the Committee received a paper on Annual Review of Performance for Committees of the Corporation. Members were reminded that formal annual targets for committees of the Corporation had been established in 2006. Members reviewed the performance indicators and evidence sources outlined in the paper and considered the performance of the Audit Committee during the 2016/2017 year.

 In addition, members had developed a specific Audit Committee self-assessment and evaluation checklist which had been adapted and which was due to be reviewed under agenda item 10(v).

 **Governors reviewed the performance indicators and considered the work undertaken by the Committee during the 2016/2017 year. Members reviewed the evidence sources and concluded that the work of the Audit Committee had added value to the work of the full Corporation.**

**33/17 Audit Committee Evaluation Checklist 2016/2017**

 Members of the Committee were reminded that the establishment of an audit specific self-assessment questionnaire had previously been endorsed to be completed as part of the annual review and evaluation process.

The Clerk to the Corporation had completed the questionnaire with the Director of Finance and Funding and the outcomes of the review were provided in Appendix A to the paper for the Committee to review. Members noted that no issues or significant areas of concern had been raised as part of the review.

**Members of the Committee reviewed and noted the outcomes of the specific Audit Committee self-assessment for 2016/2017.**

**34/17 Annual Review of Audit Committee Terms of Reference and Annual Cycle of Business**

 Members of the Committee undertook an annual review of the Committee Terms of Reference and Annual Cycle of Business. The Committee considered and agreed that it had complied with the terms of reference during the 2016/2017 academic year and no changes to the Terms of Reference or Annual Cycle of Business were proposed.

 **Members of the Committee considered and agreed that it had complied with the terms of reference during the 2016/2017 year and acknowledged that no changes to the Terms of Reference or Annual Cycle of Business were proposed.**

**35/17 Contract for Internal Audit Services 2017/2018**

 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 2015/2016 at a previous agenda item, members of the Audit Committee agreed to recommend the re-appointment of Mazars for a further year to run from 1st August 2017 to 31st July 2018.

 **Members of the Audit Committee formally agreed to recommend the re-appointment of Mazars as the Internal Audit Service Provider to the full Corporation for approval at its meeting on the 28th June 2017 for a further year to run from 1st August 2017 to 31st July 2018.**

**36/17 Dates of meetings in the 2017/2018 Academic year**

 The following dates for the 2017/2018 academic year were agreed with all meetings to start at 5.30 pm:

* 29th November 2017;
* 14th March 2018;
* 13th June 2018.