FAREHAM COLLEGE

# **AUDIT COMMITTEE**

29th November 2017

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

Present: Mrs J Lancaster

Mr A Spires

Mr C Thomas

In attendance: Mr N Duncan (Principal)

Mrs E Baxter (Director of Finance & Funding)

Mr R Nicholls (Grant Thornton) (telephone conference call)

Mr L Newman (Mazars)

Mrs J Eayrs (Clerk to the Corporation)

**37/17 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.

**38/17 Apologies for absence**

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

**39/17 Minutes of the meeting held on the 8th June 2017**

The minutes of the meeting held on the 8th June 2017 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.

*Mr Ray Nichols joined the meeting at this point via telephone conference call to present the External Audit agenda items.*

**40/17 Financial Statements 2016/2017**

**(i) The Audit Findings Report**

Members of the Committee had received the Audit Findings Report for consideration and review. Mr Nicholls, 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;  
  - Latest available set of management accounts;  
  - Signed self-assessment questionnaire;
* Members were referred to page 10 which provided **an Overview of Audit Findings** – Members noted that there were no significant audit findings;
* Members were referred to page 11 which provided a summary of the risks identified and the College’s response to them. These related to:  
  - improper revenue recognition; and  
  - management override of controls;
* **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 2018;
* **Reasonably possible risks** – Members were referred to pages 13, 14 and 15 of the report. No issues were identified;
* **Regularity findings** – Mr Nicholls confirmed that no issues had been identified and, as a result, an unqualified regularity opinion had been issued within the Financial Statements;
* **Internal Controls** – Members were referred to page 18 which outlined internal controls related to:  
  - accrued income; and  
  - fixed assets.   
  In addition, members reviewed issues raised in the previous year on page 19 which provided an update on actions taken to address the issues and which related to:  
  - fixed asset cut-off;  
  - bank payments;

Mr Nicholls 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 another positive achievement for the College.

**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 13th December 2017.**

**(ii) Financial Statements:**

Members of the Audit Committee had received a copy of the Financial Statements Year Ended 31 July 2017 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 another positive outcome.

**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 13th December 2017.**

**(iii) 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 21st November 2017 and they had agreed to recommend it for formal approval by the Board.

**Members reviewed the contents of the paper and endorsed the recommendation of the F&R Committee that the Self-Assessment Questionnaire be recommended to the full Corporation for formal approval at its meeting on the 13th December 2017.**

**(iv) Letter of Representation** – Members reviewed and endorsed the recommendation of the F&R Committee to recommend the Letter of Representation for formal approval by the full Corporation at its meeting on the 13th December 2017.

**41/17 Correspondence**

(i) **Letter from ESFA dated 18th October 2017 re: Fareham College Financial Plan 2017 to 2019** - The Principal advised members that the letter from the ESFA had confirmed the College’s underlying financial grade as ‘Satisfactory’ for the 2016/2017 year and ‘Outstanding’ for the 2017/2018 (current budget year). Members also reviewed and noted the financial dashboard provided which incorporated various key performance indicators measured against both target benchmarks and benchmarks achieved in the sector.

(ii) **Letter from ESFA dated 9th November 2017**: **Early Intervention** – The Principal outlined the process of Early Intervention and the mechanism used to calculate and ‘trigger’ it. He explained that the drop in financial health to ‘Satisfactory’ was related to the repayment of the LEP loan. He went on to say that the ESFA were currently ‘actively engaged’ with the College to ascertain how the position would be managed going forward. Mrs Baxter confirmed that, once the loan had been repaid, the ratio would ‘bounce’ back up to a healthy level and would return to ‘Outstanding’ as outlined in the ESFA letter dated 19th October 2017 mentioned above;

(iii) **Letter from Peter Launer, Chief Executive and Accounting Officer of ESFA, dated 17th November 2017** – Members reviewed and noted a letter from Peter Launer to all Chief Executives and Principals of Further Education Colleges. The Principal explained that the letter expressed Peter Launer’s concerns about accurate budgeting and that he urged leaders in the sector not to be over ambitious with their financial forecasting. The Principal advised members that, currently, 48% of colleges were returning deficit budgets.

**42/17 Annual Report of the Risk Management Group – November 2017**

Members of the Committee received the Annual Report of the Risk Management Group – November 2017. 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.

Members noted that risk management workshops had been held throughout the 2016/2017 year and the register had been updated monthly from September 2016 to June 2017. It was noted that the most recent workshop had taken place in November 2017 and the next would take place in March 2018. In addition, during the workshops the whole College risk register had been refreshed and updated collaboratively with impact/severity, likelihood/probability, owners and mitigating actions agreed. Members of the Audit Committee were reminded that, following these workshops, the relevant College committees had reviewed the risks pertinent to their areas to offer oversight, support and challenge to the Management Team.

Members noted that the Annual Report would be presented to the full Board at its meeting on the 13th December 2017.

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 2016/2017 year which had included:

* Student Numbers and Allied Funding;
* IT Capacity and Capability;
* Quality of provision;
* Middle management capability and capacity;
* Health and Safety.

**Members of the Audit Committee reviewed and endorsed the Risk Register. 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.**

**43/17 Internal Audit Report: Core Financial Systems – New Finance System (06.16/17)**

Members of the Committee received and noted the Internal Audit Report from Mazars for the New Finance System review which had taken place in June 2017. Members noted that ‘adequate’ assurance had been given with 3 ‘priority 2’ (significant) and 2 ‘priority 3 (housekeeping) recommendations had been made which related to:

**Signficant:**

* **4.2 Procurement: decision minutes** – Members noted that Mazars had identified that the College should ensure that, where key decisions, were made, such as significant capital expenditure, the outcome of the decision should be clearly recorded in Executive meeting minutes and supporting documentation should be maintained in a single location to ensure a clear audit trail was held;
* **4.3 Risk Register: Risk of implementing a new finance system** – From the review of the project documentation it had not been possible to confirm that the risks associated with the implementation of a new finance system had been monitored throughout the project;
* **4**.**4 Data back-up files** – The College should seek to receive regular updates from Access to confirm that back-ups were running effectively for the College financial data. The management response confirmed that provider comments on this had been sought and a response was awaited.

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 Core Financial System: New Finance System (06.16/17)).**

**44/17 Internal Audit Strategy and Operational Audit Plan 2017/2018**

Members of the Committee received and endorsed the Operational Plan which had been updated to include dates for the internal audit reviews planned during the 2017/2018 year. The Director (F&F) highlighted the fact that the majority of the work would be completed during the Spring term to enable the reports to be finalised in time to be presented to the March 2018 and June 2018 meetings of the Committee.

**Members received and endorsed the Operational Plan 2017/2018.**

**43/17 Internal Audit Annual Report 2016/2017**

Members of the Committee had received the Internal Audit Annual Report 2016/2017.

Mr Newman, Mazars, presented 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 2016/2017 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 2016/2017** – Members were referred to page 1 of the report which outlined the number of days approved for the Plan during 2016/2017. Mr Newman 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 21 November 2016. Members noted that, whilst there had been some changes in fieldwork dates during the period due to operational reasons, all planned audits from the Plan had been completed during the year;
* **Summary of Internal Audit Work undertaken in 2016/2017** – Members were referred to page 10 of the report which provided a detailed summary of the internal audit work undertaken during 2016/2017:  
  - Subcontracting Controls – n/a;  
  - Recruitment, Retention and Succession Planning – Substantial;  
  - Learner Journey – substantial;  
  - Core Financial Systems: New Finance System – Adequate.
* **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.

**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 13th December 2017.**

**44/17 Annual Report of the Audit Committee to the Corporation and Principal of Fareham College: Financial Year 2016/2017**

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 2016/2017 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 13th December 2017 for formal approval.**

**45/17 Review of Internal Audit Recommendations – November 2017 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.

**Members reviewed and noted the contents of the paper and noted the progress to date of the internal audit recommendations.**

**46/16 Date of next meeting**

It was noted that the next meeting was scheduled to take place on **14th March 2018 at 5.30 pm**