FAREHAM COLLEGE

# **AUDIT COMMITTEE**

28th November 2018

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

Present: Ms K Janagal

Mr T Rudd

Mr A Spires

Dr C Thomas

In attendance: Mr N Duncan (Principal)

Ms J Eayrs (Clerk to the Corporation)

Mr S Griffiths (RSM)

Mr M Lewis (AP FF&R)

**31/18 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.

**32/18 Apologies for absence**

Apologies for absence were received and accepted from Frances Millar, RSM and Dan Canham, Mazars.

**33/18 Minutes of the meeting held on the 13th June 2018**

The minutes of the meeting held on the 13th June 2018 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.

**34/18 Correspondence:**

(i) **Letter from ESFA dated 15th October 2018** **re: Fareham College Financial Plan 2018 to 2020** - The AP(FF&R) advised members that the letter from the ESFA had confirmed the College’s underlying financial grade as ‘Good’ for the 2017/2018 year (based on the latest out-turn forecast) and ‘Good’ for the 2018/2019 year (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 2018**: **Early Intervention and Prevention** – The AP(FF&R) advised members that a meeting with the ESFA had taken place on the 14th November 2018 as part of the early intervention monitoring process. During that monitoring meeting the ESFA were able to review a much improved forecast out-turn position for 2017/2018 than originally envisaged. The Finance Record had been submitted and, based on the better then forecast out-turn position for 2017/2018, the College’s position had improved from 180 points to 210 points. Members noted that, the Finance Record would be analysed and it was envisaged that the improved point score would take the College out of early intervention in the New Year. The AP(FF&R) confirmed that the ESFA would confirm the position in writing to the College once the analysis had been completed.

**35/18 Annual Report of the Risk Management Group – November 2018**

Members of the Committee received the Annual Report of the Risk Management Group – November 2018. 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 2017/2018 year and the register had been updated monthly from September 2017 to June 2018. It was noted that the most recent workshop had taken place in October 2018 and the next would take place in March 2019. 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 12th December 2018.

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 that, during the 2017/2018 year the College had identified achievement of student number targets as a key threat. Efficiencies related to staffing and non-pay budgets were implemented. However, it was noted that, despite the actions taken, the College returned a third consecutive deficit budget. This was due to not achieving the target apprenticeship income and an over reliance on sub-contracting for AEB. The AP(FF&R) emphasised the fact that the College would need to achieve the planned apprenticeship activity and reduce its reliance on sub-contracting to realise a surplus in 2018/2019.

In addition, the following key points were brought to Governors’ attention:

* **The overall risk score was 6.57 compared to**:  
  - 6.45 (Nov 17);  
  - 6.67 (Mar 18); and  
  - 6.39 (Jun 18);
* **The 3 biggest risks related to**:  
  - Decline in funding, particularly levy and grant apprenticeship funding;  
  - Failure to recruit sufficient apprentices to meet the growth plan in the budget;  
  - Financial position deteriorates leading to a decline in the College’s financial health grade;
* **Declining risks included**:  
  - Poor student attendance leading to poor outcomes (English and Maths attendance);  
  - Poor FT and PT recruitment leading to decline in funding (reduction in school leavers);  
  - Affordability of competitive rates of pay causes issues related to recruitment;  
  - Full Study Programme under-developed leading to elements not being completely delivered;  
  - Serious IT security failure causing security breach (attempted breach thwarted);  
  - Changes to Data Protection Law increases accountability associated with breach and risk of severe penalty;
* **The following risks all had improving scores:**  
  - Teaching and learning;  
  - capacity within the curriculum middle-management team;  
  - IT infrastructure failure;  
  - Accurately monitoring students across different funding streams;  
  - Apprenticeship recruitment;  
  - Staff engagement and engagement with QAA processes;  
  - Turnover of senior management team;  
  - Over reliance on sub-contracting activity of 16-18 part-time, apprenticeships and AEB;  
  - Poor housekeeping;  
  - Funding and attributable resourcing of EHCPs;  
  - In-house IT capability and capacity;  
  - Embedding the PREVENT agenda within all College operations;  
  - HR system to manage operational HR efficiently;  
  - CETC project.

Governors discussed aspects of the Risk Register as follows:

1. Members queried whether ‘phishing tests’ had taken place. The Principal outlined an incident involving his email which had occurred in May 2018 and the actions which had been effected to try to protect against ‘phishing’ emails. Members acknowledged that it was becoming increasingly difficult to detect ‘phishing’ emails;
2. Members discussed the Board’s risk appetite and where it wanted to get to. The Principal reminded members that a risk appetite statement had previously been formally approved by the Corporation;
3. Members discussed the deterioration in relation to mental health issues amongst students. The Principal stated that colleges were now much better at identifying issues and encouraging individuals to declare it. He continued by saying that the College put a lot of effort into this area, the risk lay in whether the College could resource this level of support going forward. Governors queried whether colleges received funding for mental health support and the Principal confirmed that funding was only received if linked to an EHCP.

**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.**

**36/18 Subcontracting Audit Certificate**

Members of the Audit Committee received a paper on the Subcontracting Audit Certificate. Mr Lewis, AP (FF&R) spoke to the paper and advised members that the ESFA required external assurance on the College’s subcontracting controls for those colleges whose aggregate value of subcontracting exceeded £100k in a financial year. He went on to say that Mazars had been the Internal Audit Service Provider for the period relevant to the Subcontracting review to provide assurance on the systems and controls in place to manage subcontracting delivery.

The report on Subcontracting Controls was provided as Appendix A to the paper. The report confirmed that the six previous recommendations had been implemented and that two new recommendations (‘priority 3’/’housekeeping’) had been identified.

Members were advised that Mazars had reviewed the controls and had provided a signed certificate which confirmed that they had reviewed the systems and controls and that they were in accordance with the requirements set out in ‘Providing External Assurance on Subcontracting Controls’.

**Members of the Audit Committee reviewed and noted the contents of the report and the related appendices.**

**37/18 Internal Audit Report: IT Strategy and Security – FINAL (05. 17/18)**

Members of the Committee received and noted the finalised Internal Audit Report from Mazars for the IT Strategy and Security review which had taken place in May 2018.

Members were reminded that the scope of the audit visit had been to review the College’s IT Strategy and related controls, as well as processes for IT Security and IT Recovery. At the previous Committee meeting in June 2018 the Chair had expressed concern that not only had the report been late, which had made it very difficult to find time to read it, but it had not even been finalised with a number of recommendations that had been made still in dispute. The Committee had confirmed that the delay in receiving the report had not been helpful and members had struggled to know how they could provide meaningful comment. As a result, the Committee had requested that the report be agreed and finalised as soon as possible and be presented to the November meeting.

The Chair invited Mr Lewis, AP(FF&R), to provide an update on the recommendations outlined in the finalised report and the progress which had been achieved since the initial audit review.

Mr Lewis confirmed that originally 9 fundamental (priority 1) recommendations had been made, the majority of which had been disputed. He went on to say that there were now only 3 priority 1/fundamental recommendations within the report which related to:

1. **Hardening Procedures** – Members noted that this process had not yet begun due to the re-designing of the entire operational estate. Mr Lewis confirmed that it would be completed by February 2019;
2. **Disaster Recovery Plan** – Members were advised that the DRP had been introduced at the start of this current academic year and would be tested in February half-term. In addition, it was noted that the option to increase storage at CEMAST to allow for the transfer of the back-up files was being explored;
3. **Unsupported Operating Systems** – Members were advised that the five servers which needed decommissioning would have been removed by the end of the following week. Members queried the potential risk to the College should the server ‘die’. The Principal explained that the server held information from the old HR management system. It was access to this data which had raised concerns and the associated ‘comfort’ linked to retaining the historical information stored on it.

Mr Lewis added that the new Internal Audit Service Provider would undertake a follow-up review of the recommendations which had arisen as part of this review to provide evidence that actions had been implemented.

Members noted that a further five Priority 2/Significant and four Priority 3/Housekeeping recommendations had been made as part of the review. Mr Lewis provided an update on the progress achieved against these recommendations since the report had been finalised in August 2018.

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. Thanks were extended to Mr McQueen for his contribution to what had been a difficult audit review.

**Members reviewed and noted the contents of the Internal Audit Report IT Strategy and Security (05/17/18), the recommendations which had been made and the actions in train to address the issued identified as part of the review.**

**38/18 Internal Audit Annual Report 2017/2018**

Members of the Committee had received the Internal Audit Annual Report 2017/2018. In the absence of Mazars to present the document members reviewed and noted the contents and noted the Annual Opinion which stated that:

* **Annual Opinion** - “Fareham College’s governance, risk management and internal control arrangements were generally adequate and effective to manage its achievement of the College’s objectives with the exception of IT Strategy and Security for which a ‘Limited Assurance’ opinion was provided in the period. This review led to three Priority 1/fundamental recommendations being made”.

Members acknowledged that actions were in train to address the issues arising from the IT Strategy and Security review as discussed earlier in the meeting. No other fundamental issues of concern had been raised.

**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 12th December 2018.**

**39/18 Outcomes of the Internal Audit Service Tender**

Members of the Committee received a paper on the Outcomes of the Internal Audit Service Tender. The Chair advised members that the Tender Panel had met directly prior to the meeting. He went onto say that both firms that had presented to the Panel were both very credible. However, one firm had a better approach to internal audit, a more developed benchmarking data pool and had demonstrated a superior use of technology. Therefore, the Panel had agreed to recommend that TIAA be formally recommended as the Internal Audit Service provider to be approved by the full Corporation at its meeting on the 12th December 2018. In addition, it was agreed that the contract would be for a three-year period from 1st January 2019 to 31st December 2021 with an annual review.

**Members of the Audit Committee agreed the recommendation of the Tender Panel that TIAA be appointed as the Internal Audit Service Provider for a three-year period from 1st January 2019 to 31st December 2021 with an annual review for formal approval by the full Corporation at its meeting on the 12th December 2018.**

**40/18 Annual Report of the Audit Committee to the Corporation: Financial Year 2017/2018**

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 2017/2018 year and agreed to recommend it to the Corporation for formal approval with the inclusion of one additional comment on page 2 of the report which related to the fact that RSM had completed the audit of the 2017/2018 Financial Statements.

**The Committee reviewed the Report and agreed it be presented to the full Corporation at its meeting on the 12th December 2018 for formal approval with the inclusion of the additional point as outlined above.**

**41/18 Financial Statements 2017/2018**

**(i) Financial Statements:**

Members of the Audit Committee had received a copy of the Financial Statements Year Ended 31 July 2018 for discussion and review. The Committee requested that thanks be extended to the AP(FF&R) and his team for all their hard work during the audit process.

Mr Lewis drew a number of minor changes which had occurred that day to members’ attention as follows:

* + Minor wording changes related to the previous Finance Director and the current AP(FF&R);
  + The request from RSM to remove the brackets related to the display of a deficit figure;
  + The change of membership of the Audit Committee (transfer of Staff Governor to F&R Committee) in line with the Audit Code of Practice;
  + The reduction of the Caster Bridge model wording in relation to the Statement of Corporate Governance;
  + Accountant Assurance moved to the end of the document.

Members reviewed page 27 of the Accounts and noted a better than forecast result of £539k deficit.

**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 12th December 2018.**

**(ii) The Audit Findings Report**

Members of the Committee had received the draft Audit Findings Report from RSM for consideration and review. Mr Griffiths, RSM spoke to the paper and drew members’ attention to the following key issues:

* No modifications to the Financial Statements or the Audit Findings Report were anticipated;
* Members’ attention were drawn to the key risks which related to:  
  - Management over-ride of internal controls – no issues were noted;  
  - Income recognition – bursary and free school meal income should not be included in I&E;  
  - Pension scheme liabilities – assumptions used were consistent with the sector;  
  - Going concern – no matters of significance had been identified.  
  Mr Griffiths confirmed that the risks identified were standard for the FE sector;
* Levy apprenticeship income – Members noted that a total income of £821 had not been invoiced to employers. The misstatement had been adjusted in the Financial Statements;
* Unadjusted/adjusted misstatements were reviewed and noted on page 7 of the report;
* Significant deficiencies in internal control – Members noted that a process had been implemented to ensure that a report was run from the Employer Hub which identified the amounts to be invoiced by the College on a monthly basis;
* Fixed asset register – Members noted that the College had £3.2m of nil net book value items on the fixed asset register. An annual review was recommended;
* Significant findings from the audit included:  
  - **Holiday pay accrual**: Members noted that a new HR system had been implemented which would prevent any issues in the future;  
  - **Financial Statement Disclosures**: No issues other than those outlined in section 2 of the report had been identified;  
  - Significant difficulties – None encountered;
* Draft letters of representation – reviewed and endorsed;
* Emerging issues outlined in Appendix B to the report were reviewed and noted.

Mr Griffiths confirmed that no significant issues had been identified to report to the Committee. He went on to say that, for a first audit, given the number of adjustments, it had been a positive outcome for the College. He extended his thanks to the AP(FF&R) and his team for their co-operation with the audit which had been a rigorous and thorough process.

**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 12th December 2018.**

**(iii) Self-Assessment Questionnaire** - Members of the Committee received the Self-Assessment Questionnaire for consideration and review. The AP(FF&R) advised the Committee that the document had been considered by the Finance and Resources Committee at its meeting on the 23rd November 2018 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 12th December 2018.**

**42/18 Review of Internal Audit Recommendations – November 2018 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.**

**43/18 Date of next meeting**

It was noted that the next meeting was scheduled to take place on **13th** **March 2019 at 5.30 pm**