



**SOUTH GLOUCESTERSHIRE AND STROUD COLLEGE**  
**FURTHER EDUCATION CORPORATION**

**AUDIT COMMITTEE**

Approved minutes of a meeting  
Held on Monday 18 November 2019  
At WISE Campus, New Road, Stoke Gifford, Bristol

**Present:**

Mike Croker	Corporation Member (Chair)
Phil Eames	Corporation Member
Sally Flett	Co-Opted Member
Dave Merrett	Corporation Member
Ben Short	Corporation Member

**In attendance:**

Rich Aitken	Head of Finance
Tony Felthouse	KPMG (External Auditors)
Jude Saunderson	Chief Financial Officer
Louise Tweedie	RSM (Internal Audit Service)
Sharon Glover	Clerk

The Chair opened the meeting by welcoming Ben Short to his first meeting of the Audit Committee.

1. **Apologies for Absence**

Apologies were received from Kevin Hamblin.

2. **Declarations of Interest**

Ben Short declared that RSM are the external auditors for his employers.

3. **Auditor Concerns**

At the invitation of the Chair the auditors were invited to raise any concerns in the absence of College management. RSM reported no concerns and that last year had gone well with good interaction and input from College staff.

KPMG reported no concerns and that staff had worked hard in the absence of the Chief Financial Officer.

*At this point College Management were invited to join the meeting.*

4. **Other Items of Urgent Business**

There were no other items of urgent business.

5. **Minutes of Previous Meeting**

The minutes of the meeting held 19 Sep 19 were approved and signed as a correct record.

6. **Matters Arising From Those Minutes**

- a) Corporation approval of the Internal Audit needs assessment, strategic plan and 2019/20 annual plan was noted.
- b) Actions on the Audit Committee action log were monitored and updates provided. Although KPMG had added members to their Audit Committee Institute, members raised that no communications had been received. KPMG agreed to investigate further.

In the absence of the CEO & Executive Principal, the Chief Financial Officer reported that cyber security had been discussed with the Head of IT who confirmed that the College has obtained the cyber essential certificate which is reviewed annually and penetration testing also takes place. In addition external penetration testing is conducted and monthly scans together with out of hours testing. Ben Short informed the Committee of the existence of the cyber essential plus certificate which provides more rigour and scrutiny from an external provider. The member agreed to discuss this further with the Head of IT and CEO & Executive Principal.

**Action: KPMG.**

7. **Internal Audit**

- a) Internal Audit Service's 2018/19 Annual report – A revised report was presented with RSM's attendance at meetings updated. Confirmation was received that all other details and the opinion remained the same as presented at the last meeting.

**It was resolved:**

**To recommend Corporation approval of the Internal Audit Service's 2018/19 Annual Report.**

- b) Framework for Compliance with Legal and Regulatory Requirements: Health and Safety – Members noted that the final report was not ready in time for presentation at the meeting and will be carried forward to the next meeting.
- c) Estates Management Framework – RSM presented the report and provided the background to the audit. Members were informed of a change in RSM's reporting format and a move towards exception reporting however, the detailed report can be available upon request. It was reported that the audit received "substantial assurance" with 1 medium and 3 low priority actions agreed. However, 1 of the low

priority actions is to be removed in relation to updated service level agreements with SGS Academy Trust as evidence has now been provided. RSM agreed to re-issue an updated report. Although members preferred the new reporting format it had been previously agreed that management responses to findings and actions are to be included as this will also help to create ownership of action implementation. RSM agreed to include in future reports.

Following scrutiny of the report members questioned whether the implementation timeframes were realistic and also the need to take into consideration the priority of actions versus implementation dates. The Chief Financial Officer agreed to challenge these dates with College staff. Members also suggested that the implication of not taking action should be drawn out in the report.

Members questioned the coverage of the planned maintenance audit and whether the Berkeley campus had been included in the scope of the audit. RSM confirmed that Berkeley campus is included in the College estate and would have formed part of the population for testing but did not form part of the sample testing undertaken. When asked, confirmation was received that Berkeley campus would be subject to the same procedures as the rest of the College.

**The report was noted.**

**Action: Chief Financial Officer.  
RSM.**

- d) Progress Report – Members received the progress report, including Further Education Emerging Issues. Members’ attention was drawn to the new mandatory ISO 27001 requirements from the ESFA, to be implemented by 2021. This will place a huge burden on the sector and is a major piece of work for Colleges and if not achieved poses a risk to funding. Members asked that this risk be added to the risk register and that an update from management about the College’s progress towards the implementation of this requirement is provided at the next Audit Committee meeting.

When asked, confirmation was received that RSM will be producing their usual benchmarking report for the next meeting. Members also asked if there was any update on the publication of the new ESFA financial model. RSM confirmed that nothing has yet been published but the end of January 2020 for its completion and submission remains the timeframe. Members noted that the introduction of the new model mid-year and the delay in its publication is unhelpful.

**The report was noted.**

## 8. **Financial Statements Audit**

- a) Draft SGSGS Annual Report and Financial Statements 2018/19 were noted.
- b) The SGSCSL Annual Report and Financial Statements 2018/19, Letter of Representation and Letter of Support for SGSCSL were presented. Members were informed that, as with last year, there will be a need again this year to approach SGS Corporation for a letter of support for the next 12 months. Members asked if there was any exception reporting. The Chief Financial Officer reported a decrease in the valuation of the buildings as the site was valued this year rather than a desk based exercise previously. It was confirmed that KPMG had reviewed the valuation and were content with the approach taken. In addition the settlement payment from We-Link has not yet been received. Members raised some queries and anomalies with the SGS Group Annual Report and Financial Statements and the Head of Finance agreed to review.

### **Action: Head of Finance.**

- c) July Management Accounts – Members were presented with revised management accounts, to those previously presented to Corporation, and changes between the two versions were presented by the Head of Finance. Members asked that, for the Corporation meeting, a reconciliation from the management accounts as presented to the October Corporation and the statutory accounts is presented.

### **The report was noted.**

- d) KPMG's letter re: Reporting on agreed upon procedures in respect of Teachers' Pensions End of Year Certificate for the year ended 31 March 2019 was noted. Members questioned whether the College's Pay & Benefits Analyst had delegated authority to sign the certificate and to ensure any such delegation is reflected in the Financial Regulations.
- e) Draft Annual Report and consolidated Financial Statements 2018/19 – Following detailed scrutiny members raised various amendments and areas for further clarification by the Head of Finance. Members also questioned whether it was correct that the College had no formal reserves policy. Members were informed that reserves related objectives were in place rather than a separate policy but this would be considered going forward. Members also questioned whether the Benefit in Kind payment to the College Principal should be reflected in the new Remuneration Annual Report to the Corporation. The Clerk was asked to discuss further outside of the meeting with the auditors.

**It was resolved:**

**To recommend Corporation approval of the Annual Report and Financial Statements year ending 31 July 2019, subject to changes discussed and final oversight by the Chair of the Audit Committee.**

**Action: Head of Finance.  
Clerk.**

- f) Financial Statements Auditors' Management Letter - KPMG presented their Management Letter and reported that the audit is now substantially complete and nothing substantive was outstanding. Members discussed the uncorrected audit misstatements and KPMG was asked to check materiality.

KPMG reported that there was one medium audit recommendation raised relating to the interface between student records and the finance system. Members asked for further information on this as the Audit Committee had previously received a report covering the post implementation review of the new systems introduced. Members were informed that there was a reconciliation issue and the College is waiting for a fix from the software company.

KPMG circulated LGPS liability reconciliation analysis which sets out the position and contributing factors to the movements during the year. The increase in deficit is consistent with what KPMG has evidenced this year. The Chief Financial Officer reported that FRS102 is very prescribed for the accounts and members recognised that there was no option but to incorporate these numbers. Members were informed of the McCloud judgement which has had an impact on increasing contribution rates. Members suggested that the handout is included within the Management Letter as it explains the biggest movement in the Financial Statements and that the outstanding items section is also updated. It was also suggested that 2017/18 data is included in the handout in order to provide trend analysis, if practicable. Members questioned whether there was any risk to the College and confirmation was received that there wasn't as this was purely an accounting requirement that ESFA will strip out when assessing financial health. The CFO stated that the recent draft actuarial valuation for funding (rather than accounting) purposes shows a much lower deficit. Members also raised that the slide doesn't indicate the impact and whether there was a risk to the College. KPMG advised that the affordability of the level of contribution is considered to be a risk.

**It was resolved:**

**To recommend Corporation approval of KPMG's Management Letter, subject to changes discussed and final oversight by the Chair of the Audit Committee.**

- g) Letter of Representation – Members received KPMG’s Letter of Representation and assurances were received from the Chief Financial Officer and Head of Finance that they are content with the Letter. When asked, confirmation was received that the Letter did not contain any unusual factors.

**It was resolved:**

**To recommend Corporation approval of the Letter of Representation.**

The Head of Finance and his team were thanked for all their hard work. The Head of Finance asked that thanks are particularly recorded to Janine Davies (Planning and Reporting Manager) for all her hard work.

9. **Audit Committee Annual Report to the Corporation and the CEO & Executive Principal**

- a) College’s revised draft 2018/19 annual Risk Management report – The Chief Financial Officer presented a revised draft, based on a template provided by RSM.

**The report was noted.**

- b) Draft Audit Committee Annual Report – RSM raised one minor revision and members asked the Clerk to double check that the Committee had received a subcontracting audit as this couldn’t be recalled.

**It was resolved:**

**To recommend Corporation approval of the Audit Committee Annual Report, subject to one revision raised and final oversight by the Chair of the Audit Committee.**

**Action: Clerk.**

10. **Counter-Fraud Strategy**

The Chief Financial Officer presented a draft Counter-Fraud Strategy for the Committee’s consideration. Members were informed that various strategies from RSM and the FE/HE sector were considered in its formation and tailored for the College. Although the strategy needed to be presented to the Executive Team, no changes were anticipated. Members noted that in the 2<sup>nd</sup> term there would be a risk assessment completed by the Head of Finance with a report submitted to the June Audit Committee meeting. Members discussed the development of staff training requirements and requested that a detailed proposal for training is submitted to the Audit Committee. Members also raised that it is International Fraud Week this week.

**It was resolved:  
To recommend Corporation approval of the Counter-Fraud Strategy.**

11. **Audit action plan**

The Committee noted an improved position on the audit action plan and that RSM will follow up on the implementation of actions as part of their annual review. Members were informed that item 25 should be RAG rated as Red as not yet implemented.

Members discussed the level of assurance for security data on IT systems and confirmation was received that periodic audits are completed and that IT High Level controls forms part of the internal audit plan. Ben Short was invited to input to the scope of this audit. Ben also raised that he was due to meet with the CEO & Executive Principal and Head of IT to discuss Cyber Security and the new ISO 27001 standard in his role as critical friend to the College.

Member asked that, going forward, a cover note accompanies the audit action plan to summarise the overall position, percentage of actions implemented by the due date and trend analysis of movement.

**The report was noted.**

**Action: Chief Financial Officer.**

12. **Risk Management**

Members noted that this item is to be carried forward.

13. **2018/19 Bad debt write off**

Members received the report and were notified that £25,375 bad debt had been written off for 2018/19. Taking into consideration the scale of provision provided, the Chief Financial Officer considered this to be a small level of write offs. The Chief Financial Officer also reported that there are further large provisions against debts which will require future consideration to write off and will be presented to Audit Committee.

**The report was noted.**

14. **ESFA Letter to Chairs re: Bournville College**

At the request of the Corporation, members considered a letter from the CEO of ESFA drawing attention to some lessons learnt from a 2016 investigation into Bournville College, together with a checklist of recommendations produced by the AoC. Members asked RSM what had gone wrong at this College. Members were informed that there was an integrity issue as the Principal was in a relationship with a senior colleague and undertook a lot of travel both of which had not been disclosed. Members discussed the processes in place within the College to capture this type of information and it was

accepted that although processes are in place there is a reliance on staff to follow them.

Members considered the checklist and questioned whether the Committee receives proper assurance over management and quality of data returns and whether there is a reasonable level of assurance received. RSM advised that this question had derived from the HE sector and further assurances are expected to be enforced by the ESFA in the FE sector to align with OfS requirements. RSM agreed to share with the Chief Financial Officer an example used in the University sector.

Members were informed that the College Principal signs off the returns and year end submissions are checked by the Chief Financial Officer. Members asked that the CEO & Executive Principal and Chief Financial Officer provide a report at the next meeting explaining the returns required and assurance processes in place.

Members questioned whether other Colleges regularly updated their regularity self-assessment questionnaires and the auditors reported that they were not aware of this as the questionnaire is issued once a year by the ESFA and is subject to change.

Members discussed the financial information supplied by the ESFA and noted that a financial dashboard is provided to the College Principal and also that in previous CEO & Executive Principal's report financial benchmarking had been reported.

Members concluded that assurance can be provided to the Corporation via receipt the Audit Committee minutes.

**The report was noted.**

**Action: CEO & Executive Principal & Chief Financial Officer.**

15. **Appointment of Auditor (Financial Statements Auditor)**

Confidential Item.

16. **Re-tendering of Internal Audit Service**

Confidential Item.

17. **Key messages for the Corporation**

Members agreed that all the approvals should be presented to Corporation and for the Chair and Clerk to agree any additional key messages for Corporation. The following was agreed after the end of the meeting:

- Approval of draft annual report and audited financial statements, subject to completion matters as noted, and related year end reports;

- Unqualified audit opinions and management letter, which reflects well on finance department staff;
- Approval of the Counter-Fraud Strategy;
- 2018/19 Bad debt write off of £25,375;
- Response to Bourneville report;
- Confidential items re auditor appointments.

18. **Any Other Business**

There was no other business raised.

19. **Date of Next Meeting**

Thursday 19 March 2020, 3.00pm at WISE Campus.

The meeting commenced at 3.00pm  
Tony Felthouse and Louise Tweedie left the meeting at 5.15pm (after item 14)  
The meeting closed at 5.30pm  
The meeting was quorate.