



SOUTH GLOUCESTERSHIRE AND STROUD COLLEGE
FURTHER EDUCATION CORPORATION

AUDIT COMMITTEE

Approved minutes of a meeting
Held on Monday 21 June 2021
Conducted via Microsoft Teams

Present:	Mike Croker	Corporation Member & Chair
	Phil Eames	Corporation Member
	Sally Flett	Co-Opted Member
	Ben Short	Corporation Member
In attendance:	Rich Aitken	Head of Finance
	Jonathan Brown	KPMG (External Auditors)
	Karen Gentles	RSM (Internal Audit Service)
	Kevin Hamblin	CEO & Executive Principal
	Jude Saunderson	Chief Financial Officer
	Sharon Glover	Clerk

The Chair opened the meeting by welcoming Jonathan Brown, in place of Tony Felthouse, and Karen Gentles in place of Louise Tweedie. When asked, Jonathan Brown explained that he has been identified as the local partner and although Tony would still attend the Audit Committee meetings he would be signing off the opinion in the end of year accounts.

The Chair also extended his thanks to Phil Eames for chairing the last meeting, in his absence.

1. **Apologies for Absence**

Apologies were received from Tony Felthouse, Dave Merrett and Louise Tweedie.

2. **Declarations of Interest**

There were no declarations of interest raised.

3. **Auditor Concerns**

The Clerk reported that RSM and KPMG had been invited to raise any concerns ahead of the meeting and had nothing to raise.

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 11 March 2021 were approved as a correct record, ready for signing by the Chair of the meeting.

6. **Matters Arising From Those Minutes**

a) Corporation approval of the following was noted:

- (i) KPMG's audit fee for 2020/2021.
- (ii) Anti-Bribery, Anti-Corruption and Anti-Fraud Policy.
- (iii) Fraud Response Plan.
- (iv) Counter-Fraud Strategy.
- (v) Anti-Money Laundering Policy.
- (vi) Declarations of Interests Policy.
- (vii) Treasury Management Policy.

b) Actions on the Audit Committee action log were monitored and the following updates provided:

- The Chair confirmed that it was not necessary to invite the Assistant Principal 16-18 to a future Audit Committee meeting. However, he wishes to return to the issue of utilisation at a future point, possibly at the time of curriculum planning or consideration of the College budget.
- The Chief Financial Officer could not recall seeing an example of a digital strategy from RSM and Karen Gentles agreed to follow up this action.
- Ben Short confirmed that he had drafted an Information Security Advocate role for Corporation consideration. He has discussed with the Group IT Director the cyber security risks and his intent is for them to meet four times a year.

Whilst waiting for College management to join the meeting the Chair agreed to bring forward agenda item 13.

7. **College Returns and Assurance process (Agenda item 13)**

The Chief Financial Officer reported that all returns had been submitted on time and there are no issues arising.

The report was noted.

At this point Kelly Gillett, Assistant Principal HE and Adult and Lee Ferris, Head of Higher Education Data joined the meeting.

8. **Office for Students Audit Report (Agenda Item 7)**

The Assistant Principal explained the role of the OfS and they had flagged that, following merger, the College had not received one of their audits and as growth had been evidenced they requested a data audit. Lee Ferris and other

members of the team had been heavily involved in this audit and credit was given for their hard work.

The Head of HE Data explained the background to the audit and confirmed that actions had been taken to address an area for improvement in the collection and classification of data. The auditors had three risk ratings and the outcome for SGS was an amber rating. The auditors had been very complementary about the work of SGS and it was not deemed to be a high-risk organisation. Following agreement of the audit report an audit action plan was put in place.

Members considered the content of the report to be more critical than what had been outlined at the meeting and questioned the severity of OfS's message. Members were informed that the auditor had been very positive about the College however the 2019/20 data set had dragged down the audit position as processes had not been in place at that time. There were systematic errors with some of the data sets and this had contributed to the audit outcome.

The report stated that there were good systems/processes in place but had not been followed. Members questioned whether it was the 2019/20 or current processes that this feedback related to. Assurance was provided that changes were implemented at the start of 2020/21 and the report related to historic data testing covering 2018/19 and 2019/20.

Members questioned whether there are plans for internal audit to provide assurance over the 2020/21 data or whether the intent was to wait for another random OfS audit. Members were informed that ILR will be submitted in August and this would flag up any issues. However, it was felt that an internal audit to follow up the OfS review with outcomes presented to the Audit Committee would be sensible, together with confirmation that the OfS audit has been formally closed. Assurance was provided that there had been no financial/funding impact as a result of the data errors. It was questioned whether the OfS auditors will return to the College and members were informed that this was dependent upon their funding situation. It was proposed that the Chief Financial Officer reports back to the Committee to confirm that actions have been taken and included in the scope of RSM testing together with confirmation that the audit has been signed off by the OfS.

The Assistant Principal and Head of HE Data were thanked for attending the meeting and their work in support of this audit.

The report was noted.

Action: Chief Financial Officer.

At this point the Assistant Principal and Head of HE Data left the meeting and Liam Evans, Assistant Principal - Corporate Development, Pat Mcleod, Assistant Principal – Apprenticeships and Mel Packham, Head of Projects Management - Funding and Data were welcomed to the meeting.

9. **Internal Audit (Agenda Item 8)**

The following reports were presented:

- a) Follow Up of Learner Numbers Systems – Systems – RSM informed that the report reflected reasonable progress which is a positive outcome as slippage has been evidenced in other parts of the sector. Of the 12 actions agreed, 8 had been implemented to date. The Assistant Principal Apprenticeships provided an update on some actions and the Head of Projects Management explained that in relation to action 3 there was a miscommunication with the auditors and, following clarification, there was no management action. Members were informed that RSM will undertake a re-audit in January 2022. The Assistant Principal and Head of Projects Management were thanked for their efforts in implementing actions.

The report was noted.

At this point Pat Mcleod, Assistant Principal – Apprenticeships and Mel Packham, Head of Projects Management - Funding and Data left the meeting.

- b) Marketing and Employability Assurance – RSM informed that this audit had received a “Green” Substantial Assurance opinion, resulting in 2 medium and 3 low priority actions. The Assistant Principal, Corporate Development provided an update on actions and confirmation was received that all actions are to be completed by the agreed dates. Thanks were extended to the Assistant Principal.

The report was noted.

At this point the Assistant Principal - Corporate Development left the meeting.

- c) Follow Up – RSM informed the meeting that this is a positive report with good progress made in implementing the agreed management actions. Members questioned who decides whether an action is to be superseded. RSM explained that this is discussed with the action owner and any disagreement is escalated to the Chief Financial Officer. The Chief Financial Officer explained that most actions are only superseded as processes change. A typographical error was raised in the percentage of the not implemented actions as it should be 3% and not 43%. RSM agreed to update the report.

The report was noted.

Action: RSM.

- d) Counter Fraud Addendum – RSM informed that this audit focused on the Anti-Fraud Awareness Training and the training completed to date, with good progress being made. The Committee asked if there was an escalation process in place for non-completion of training and the Head of Finance confirmed that there was. The Head of Finance also confirmed

that there had been 100% compliance in the Finance and HR Departments. Members asked whether there was also compliance by the Procurement Team as it is an area with a higher risk of susceptibility to fraud. The Chief Financial Officer confirmed that only two staff worked in Procurement and that she will check completion rates.

The report was noted.

Action: Chief Financial Officer.

- e) Key Financial Controls – Creditors and Payments; and Month End – RSM informed that this audit had received a “Green” Substantial Assurance opinion, resulting in 3 medium and 5 low priority actions. The Head of Finance highlighted that Covid-19 had an impact on payment performance and in a normal year there would have been disappointment with this outcome and an improvement is expected. The Chair suggested that an explanatory sentence is included in the annual report and financial statements.

The report was noted.

- f) Progress report, including updates against the Internal Audit Protocol – RSM reported that one audit remained ongoing, which would be presented at the September Audit Committee meeting. Attention was also drawn to the Client Briefings. Members questioned whether the College was heading towards a positive opinion in the RSM annual report. RSM could not envisage it not being a positive outcome. Members asked whether the outcome of the OfS audit would be taken into consideration. RSM advised that although mindful of it they had conducted their own HE audit which had evidenced a positive outcome. Members questioned whether College management responded timely to audit findings and members were assured that they did

The report was noted.

- g) Internal Audit needs assessment, strategic plan and 2021/22 annual plan, including Internal Audit Protocol – RSM presented the report and members questioned the Commercial Activities that will be audited and whether this included SGS Commercial Services. The Chief Financial Officer advised that the focus was intended to be on College activities and suggested an audit of SGSCSL the following year as it wasn't considered to be high risk.

Members also questioned the number of audit days allocated to Queen's Road and whether they were all needed. RSM confirmed that due to the range of testing undertaken these days would be needed. The Chief Financial Officer also reported that the College Principal was keen for this area to be audited.

Members discussed the annual conversations audit and whether the audit will focus on the quality rather than quantity side as the Corporation

already receive update reports. Members were informed that the audit was intending to review the quality of target setting, review the process and control framework including training, action planning and the follow up process. Members advised that the same feedback applied to the Quality Assurance Systems audit and to ensure that there is not a replication of information already reported to the Corporation.

Members questioned whether there was a sufficient number of days for the Learner Numbers Systems audit due to revisions in the Post-16 Audit Code of Practice and whether there are sufficient follow up days for the inclusion of the OfS audit and sub-contracting, especially as DiSE now falls within the definition of sub-contracting provision. The Chief Financial Officer advised that there is uncertainty of KPMG's position relating to Learner Numbers auditing and there will be an additional external audit commissioned separately for DiSE provision. KPMG advised that they are nearing conclusion on the impact of the Post-16 ACOP changes but the current view is that they will need to undertake additional audit work to replace the ESFA assurance. As soon as their view has been confirmed clients will be informed.

Members felt the plan to be well balanced and asked that the audits demonstrate their link to the risk register to clarify how they are tied into the high-risk areas of the College. RSM referred to Appendix B where the audit areas demonstrated a link to risk categories.

Members referred to conformance with internal auditing standards and noted that an external quality assessment should take place every 5 years and an update was requested. RSM confirmed that they are going through a tender process this year to undertake the quality assessment audit.

Members were concerned with the lack of SGSCSL coverage and asked for this to be included in next year's plan. College management were asked to consider the content of the Quality Assurance Systems and HR audits given the Committee's preference to a review of SGSCSL. It was agreed that the CEO & Executive Principal and Chief Financial Officer should discuss this further outside of the meeting and refer back to the Chair.

The Chair proposed that the plan is supported and that College management keeps it under review to ensure that it responds to changing requirements.

It was resolved:

To recommend Corporation approval of the Internal Audit needs assessment, strategic plan and 2021/22 annual plan, subject to any updates orally presented at the Corporation meeting.

Action: CEO & Executive Principal and Chief Financial Officer.

10. **Risk Management (Agenda Item 9)**

The Chief Financial Officer provided an update on changes to the risk reporting process for SGS and SGSCSL. Following discussions with RSM, changes were also proposed to the risk appetite which had necessitated revisions to the Risk Management and Assurance Policy.

Following review, members raised that the risk appetite column in the risk register was difficult to follow and requested the inclusion of risk appetite definitions and colour coding as contained in the policy. Also raised was a wording revision in the actions to reduce risk heading.

Members questioned why the risk relating to English and Maths had declined. The CEO & Executive Principal advised that due to remote learning it is not anticipated that the learners will be at the same position than if they had attended College. The Teacher Assessment Grades have now been submitted and there is some moderation of the results needed. There is a general feeling that there will be a hit in English and Maths and that this will be a national issue. Members suggested that further information is provided at the July Corporation meeting.

**The report was noted and it was resolved:
To recommend Corporation approval of the changes to risk appetite and the Risk Management and Assurance Policy.**

11. **Financial Statements Audit Plan 2020/2021 (Agenda Item 10)**

KPMG presented their audit plan and reported that they expect that audit work will be needed on the Learner Number Systems in light of the ESFA's ceasing to provide assurance to auditors. It was reported that there is a change in the auditing standard this year for going concern. Materiality is similar to previous years and there will also be a regularity focus. Members raised that they were wary of the extent of work by audit firms on pension liability due to the variations in valuation caused by changes in actuarial assumptions. The Banks/ESFA disregard the pension liabilities in the financial health of Colleges. It was questioned whether this should be a medium rather than high risk (in terms of external scrutiny) and it was questioned why a lot of the audit fee is used to replicate the work of the actuaries, when this is disregarded. Although KPMG shared this frustration, it is a requirement of the audit regulators and auditors have been instructed to challenge management more and underlying assumptions/assets to obtain independent assurance.

When asked, confirmation was received by the Chief Financial Officer and Head of Finance that they were satisfied with the audit plan, timings and that they are prepared for the audit. Members questioned whether the audits would be undertaken remotely. KPMG advised that current government guidance is to work from home but the expectation that this will change with the expectation of 2 days in the office and 3 days on site. The Chief Financial Officer informed that the Finance team has moved into a smaller office and moved to partial remote working from home for the long term.

Members recognised that there could be further increases in fees due to the impact of ESFA changes on auditing requirements of Learner Number Systems and asked that the Chief Financial Officer brings back any additional fees to a future meeting. It was also raised that this is something that the AoC should be referring to the ESFA in relation to the impact these changes are having on Colleges.

The Financial Statements Audit Plan 2020/2021 was endorsed by the Audit Committee.

12. **Financial Regulations (Agenda Item 11)**

The Chief Financial Officer drew attention to a significant change in the Financial Regulations relating to an increase in approval limits by the Corporation from £300k to £500k. This had been based on conversations with RSM and on benchmarking data. Assurance was provided that anything under £500k would still receive scrutiny by the Executive.

Following review further changes were requested and a question raised about the award of sub-contracts for those with an above average risk warning from a credit agency. The Chief Financial Officer agreed to update the Financial Regulations and clarify the sub-contracting position.

It was resolved:

To recommend Corporation approval of the Financial Regulations, subject to changes raised.

13. **Fraud (Agenda Item 12)**

The Head of Finance presented the College's response to the ESFA's Anti-Fraud checklist and, as requested at the last meeting, an example Fraud Risk Assessment. Members questioned whether action plans are developed as a result of the risk assessments. Confirmation was received that an action plan has been developed to draw out the greatest risks, as presented at the last Audit Committee meeting.

Having been absent from the last meeting, the Chair sought clarification in the Fraud Response Plan of who is responsible for commissioning an investigation. There appeared to be inconsistencies as in one section it references that a Project Group is convened and in another section it states that the Chair of the Audit Committee decides if a special investigation is needed. The Head of Finance agreed to review the Plan and report back.

The report was noted.

Action: Head of Finance.

14. **Post-16 Audit Code of Practice**

The Clerk reported changes to the Post-16 Audit Code of Practice. Appended to the report was the revised code; a table summarising the changes and proposed changes to the Committee's Terms of Reference. The Clerk extended her thanks to Louise Tweedie who, for completeness, had reviewed proposed changes to the Terms of Reference.

The Clerk invited KPMG's view on the external auditors presenting their findings annually to the board of governors and how this requirement can be complied with. KPMG advised that there are a variety of ways to achieve this requirement and suggested that it was discussed outside the meeting.

The Clerk invited the Committee's view on revisions to the terms of reference and in particular the suggestion that the Committee should oversee additional matters such as data breaches, GDPR issues and health and safety incidents. The Chair was inclined to exclude Health and Safety from the Committee's remit as the Corporation receives a comprehensive annual Health and Safety report and there is no subject expertise in the Committee membership. As the new Information Security Advocate role would pick up on data breaches this seemed logical to include within the Committee's remit. The Committee concurred with this proposal.

The Clerk was thanked for the work undertaken in the preparation of this report.

The report was noted and it was resolved:

- a) **To note the Post-16 Audit Code of Practice 2020 to 2021, dated March 2021.**
- b) **To recommend Corporation approval of revisions to the Audit Committee Terms of Reference, subject to changes agreed.**

15. **Audit Action Plan**

Members received an update against the audit action plan. The Chief Financial Officer informed that as more staff are back on site there will be a focus on actions, following a challenging 18 months.

The report was noted.

16. **Additional Services provided by the External Auditors**

The Chief Financial Officer reported on additional work undertaken by KPMG and confirmed how independence and objectivity had been safeguarded. Members asked that a table of all fees, including the audit fee, are included in future fee reports. It was confirmed that non-audit services fees had been included in the KPMG audit plan.

The report was noted.

17. **Audit Committee Self-Assessment 2020/21**

Members considered the Committee's performance measured against the Audit Committee Terms of Reference and recorded its findings for consideration as part of the Governance Self-Assessment process.

Auditors' views of the Audit Committee were invited. As this was his first meeting Jonathan Brown would defer to Tony Felthouse, however the self-assessment feedback resonates with what he has seen at the meeting. Karen Gentles echoed this feedback.

The Chair raised a future consideration could be for an open discussion about the coverage of the agenda and whether there are other areas of the College that require assurance by the Audit Committee.

When asked, the Clerk explained that the outputs of the Committee's self-assessment forms part of the overall Governance self-assessment process.

At this point Jonathan Brown (KPMG) and Karen Gentles (RSM) were invited to leave the meeting.

18. **Appointment of Auditors (Internal Audit Service)**

Confidential Item.

19. **Any Other Business**

There was no other business raised.

20. **Key messages for Corporation**

The Chair proposed the following key messages for Corporation:

- Critical OfS report but the Committee noted the context of the review and follow up arrangements have been requested.
- The external audit plan was endorsed and there is concern in relation to the ESFA changes to the provision of funding and possible impact on Colleges.
- The Internal Audit plan is being recommended to Corporation for approval but it needs to remain agile and under review.
- Positive outcomes in the Internal Audit reports and thanks were passed onto the staff involved, especially considering the challenging times faced over the past year.

21. **Date of Next Meeting**

Tuesday 21 September 2021, 3pm, via TEAMS.

The meeting commenced at 3.00pm
Jonathan Brown and Karen Gentles left the meeting at 5.17pm (after item 17)
The meeting closed at 5.30pm
The meeting was quorate.