



SOUTH GLOUCESTERSHIRE AND STROUD COLLEGE
FURTHER EDUCATION CORPORATION

AUDIT COMMITTEE

Approved minutes of a meeting
Held on Thursday 19 September 2019
At WISE Campus, New Road, Stoke Gifford, Bristol

Present:	Mike Croker Phil Eames	Corporation Member (Chair) Corporation Member
In attendance:	Rich Aitken Kevin Hamblin Laura Goodwin Sharon Glover	Head of Finance CEO & Executive Principal RSM (Internal Audit Service) Clerk

The Chair opened the meeting by welcoming Laura Goodwin (RSM) to the meeting, in place of Louise Tweedie.

1. **Apologies for Absence**

Apologies were received from Tony Felthouse, Sally Flett, Joe Lamonby, Dave Merrett, Louise Tweedie and Jude Saunderson.

2. **Declarations of Interest**

There were no declarations of interest raised.

3. **Auditor Concerns**

RSM were invited by the Chair to raise any auditor concerns. Although the planning process had been more challenging this year, due to College staff absence, there was nothing significant to raise with the Committee.

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

The Chair reported that Louise Tweedie had been promoted to a Partner at RSM and that the Committee's congratulations should be relayed to her. Members questioned whether there would be any impact on the audit process and her attendance at Audit Committee meetings. Confirmation was received that Louise will still be attending the Audit Committee meetings, delivering nugget training and signing off the audit reports, supported by Laura, who had experience of the FE sector and other government sectors.

The Chair requested an update on the return to work of the Chief Financial Officer. The CEO & Executive Principal reported that the Chief Financial

Officer will be having a phased return to work and a meeting has been scheduled next week to discuss further. Assurance was received that the College are very well prepared for the production of the end of year accounts, with outturns looking better than forecast. Having spoken with the Bankers they are amazed that the College is returning a surplus in the current climate. This has been achieved through tight budget control and decision making during the year in preparation for next year. It was reported that in 2020-2021 there will be an increase in student funding rate but the need to achieve this year's recruitment level was emphasised in order to fully financially benefit the College.

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 13 Jun 19 were approved and signed as a correct record.

6. **Matters Arising From Those Minutes**

- a) Corporation approval of the following was noted:
 - i) The Financial Regulations, subject to changes agreed at the Corporation meeting, and that the frequency of review takes place biennially, subject to any legislative or significant changes.
 - ii) The Anti-Bribery, Anti-Corruption & Anti-Fraud Policy.
 - ii) The Risk Management & Assurance Policy.
 - iv) Revisions to the Audit Committee's Terms of Reference.
 - v) The re-appointment of RSM as Internal Audit Service for 2019/20.
- b) Actions on the Audit Committee action log were monitored and updates provided.

7. **Risk Management Report**

Members received the draft Risk Management Annual report and questions were invited. Members discussed the report, which in parts was considered to be confusing. The Chair had obtained an example report from RSM and agreed to share this with the Head of Finance. Following discussion there were no apparent risks that had arisen during the year that had not been captured, suggesting that there is a reasonably strong risk management process in place. It was proposed that upon the return to work of the Chief Financial Officer she reviews the example report from RSM and re-presents a revised draft at the next meeting.

Members discussed the College and SGSCSL risk registers and asked that any highlights are brought to the Committee's attention in the covering paper. As discussed at a previous meeting, the Chief Financial Officer would review this presentation following her return. Recruitment targets were discussed and at this stage it was too early to comment but there was an expectation that the final outcome will be close to target. The current challenge being to sort out those students over 18. However, Higher Education recruitment is higher than last year. Budgets are being reviewed against last year's outturn with the aim of avoiding another restructuring exercise where possible.

Members raised the external hacking and data leak that had occurred at Swindon College with a further three Colleges suffering the same. The risk of this occurring at SGS was raised and discussed. Assurance was received that this risk had been mitigated as far as possible. Members questioned whether the College undertakes penetration testing and the CEO & Executive Principal agreed to report back on the College's cyber security. RSM raised that an IT high level review has been included in the annual plan and as part of this audit best practices can be considered.

Members again questioned the length of the risk register, which proves challenging for the Committee to focus on key risks and that the descriptions of risks is a further area for review by the Chief Financial Officer.

The Head of Finance drew attention to a new risk added to the register and reported that notice had been served by the current caterers and this risk is being mitigated by considering alternative replacements.

Members considered the SGS Commercial Services risk register and noted that due to the nature of this company the same risks re-occur year on year. The need to decide whether these are extraordinary risks or rather KPIs was raised.

The report was noted.

Action: Chair of the Audit Committee, Chief Financial Officer, CEO & Executive Principal.

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

The following were presented:

- a) Draft 2018/19 Annual Report – RSM presented the report and explained the four various audit opinions. The audit opinion for the College being an Amber/Green positive opinion. The reason that a full green opinion had not been provided was predominantly due some of the high actions, some open follow ups and apprenticeships. The Audit Committee raised the need for an ongoing focus and monitoring of the following up of audit actions. Members also raised the need to amend the performance indicators for RSM's attendance at Audit Committee meetings as it had not been 100%. When asked, confirmation was

received that the Committee would receive the usual benchmarking report next year.

The report was noted.

Action: RSM.

- b) Internal Audit needs assessment, strategic plan and Annual Plan 2019/20 & Internal Audit Protocol – Following review the Committee asked that the number of days per audit are included in the plan, as previously requested, and questioned why the number of audits was fewer than last year. RSM reported that this was due to more, but fewer, in-depth reviews being planned. Members also noted that there was no faculty audit included in the plan. A reduction in the days required for governance and risk management in order to include a faculty audit was requested.

As part of the financial planning and budgetary control audit scope the Committee were more interested in RSM's views on the format and content of the management accounts, as opposed to the basis of preparation of the 2019 financial plan. The Head of Finance confirmed that faculty level management accounts have been developed and of the move to reporting 24 month cash flow forecast.

Members also questioned whether the Estates Management Framework audit would include property under the management of SGS Commercial Services Limited. RSM agreed to double check. Members also checked that there would not be a clash in timings of the external and internal auditing requirements and assurance was received that there would not. One further typographical amendment was raised.

The Internal Audit Protocol was also presented and considered. As the draft internal audit plan had not been submitted until September it was suggested that this change should be reflected in the protocol.

The report was noted and it was resolved to:

To recommend Corporation approval of the Internal Audit needs assessment, strategic plan and 2019/20 annual plan, subject to changes raised and final oversight by the Chair of the Audit Committee.

Action: RSM, Chair of the Audit Committee.

9. **Education and Skills Funding Agency Regularity & Propriety Questionnaire**

Members considered responses to the questionnaire and concurred that some of the questions had been poorly drafted and the level of detail of some responses was questioned. Following discussion, the Committee tasked the CEO & Executive Principal and Head of Finance to review and update the

questionnaire prior to its presentation for consideration at the October Corporation meeting.

The report was noted.

Action: CEO & Executive Principal & Head of Finance.

10. **Waivers/Breaches of Financial Regulations**

The Head of Finance presented a report on waivers/breaches of Financial Regulations. The Head of Finance proposed that a materiality threshold is approved in order that breaches are only recorded if >£500. Members asked if any major breaches had occurred and one was reported that had led to an HR investigation. Although the breach was under >£500 the Head of Finance suggested that this type of breach should be reported upon. The Committee was in agreement to introduce a materiality threshold and that judgement is used on the reporting of any contentious/novel breaches together with the impact of these breaches. Members asked that any inappropriate waivers are also brought to the Committee's attention. Although there was none in particular to raise, the Head of Finance reported that he has become the Financial Business Partner for estates and will be working closely with the estates function.

Members discussed the details of waivers reported for 2018/19. When asked, clarification was received that rates for Bristol referred to business rates and should have said South Gloucestershire, not Bristol, in the appendix.

The Head of Finance reported that many of the waivers are similar each year and the Committee questioned why RSM and KPMG are on the list as the auditors are directly appointed by the Corporation. Members also discussed the waiver relating to Reach and the Head of Finance was looking for an exemption as this related to marketing, which was considered to be a specialist area and target driven. Assurance was received that any decision relating to marketing would be led by coverage supported by a business case. The outcome of discussions was to separate out the repetitive waivers versus the new waivers added. The Head of Finance raised the need for there to be further clarity in the Financial Regulations relating to waiver requirements.

The report was noted and it was resolved:

That a materiality threshold of >£500 for the recording of breaches of the Financial Regulations is set and that judgement is used on the reporting of any contentious/novel/inappropriate breaches together with the impact of these breaches.

11. **Counter Fraud Strategy**

The Head of Finance reported on counter-fraud activities planned for 2019/20 driven by the Post-16 Audit Code of Practice. Members were informed that the College Principal has agreed to be the College's Counter-Fraud Champion. Members questioned oversight for SGS Commercial Services Limited and

were informed that the staff who operate in the subsidiary company are College staff so will automatically be included in the counter-fraud activities.

Members asked for clarification of the need to produce a specific counter-fraud strategy as the paper did not include a specific strategy document. RSM agreed to establish this requirement. The Clerk also drew attention to Annex D in the Post-16 Audit Code of Practice and that the College should review to ensure compliance. The Chair also agreed to share with the Head of Finance an example of a counter-fraud strategy.

The report was noted.

Action: RSM, Chair of the Audit Committee.

12. **FE Commissioner's Letter to Chairs and Principals**

The Clerk presented a report in response to a request from the Corporation for the Audit Committee to review the 10 points raised in the latest FE Commissioner's letter to Chairs and Principals. Appended to the report was a table with the 10 points documented and draft responses on a comply/explain basis. Following discussion further additions were made to the responses prior to presentation to Corporation.

The Clerk also reviewed the terms of reference from other Colleges that had Finance, or similar, Committees in place. An outcome of the review was appended to the report for members' consideration. A detailed discussion then ensued. It was accepted that the FE Commissioner tends to visit Colleges in difficulty. As SGS has continually been in good financial health, with sound financial management and prudently set budgets, it was questioned whether a Finance Committee would add value at this stage.

Members were informed that ahead of presentation of the budget and 2-year financial forecast an informal group of governors, with financial skills/experience, meets with the Principal and Chief Financial Officer to sense check the financial plan ahead of its presentation to Corporation. The need for this meeting to be possibly formalised was discussed in detail. It was agreed that the current arrangement worked well and did not overstep the governance/management divide and continued to provide the ability for the Corporation to challenge the Accounting Officer and hold him to account.

The outcome of discussions was a recommendation to the Corporation to retain the status quo and keep the need for a Finance Committee or a similar financial working group under review. In particular should the College's financial health deteriorate, or the College is unable to produce the budget within the parameters set by the Corporation, or if the Group CEO & Executive Principal requests the need for a working group then it would be considered. It was suggested that the informal review of the budget and 2-year financial forecast continues with confirmation of the outcome of this review to be communicated to the Corporation.

It was resolved:

To recommend to Corporation to retain the status quo and keep the need for a Finance Committee or financial working type group under review.

13. **Audit Action Plan**

Members received the latest audit action plan and commented that the updating process is not as comprehensive as it should be. It was requested that the presentation of the audit action plan for the next meeting is prepared with more diligence.

The Committee also expressed concern about the lack of implementation of actions being recorded by RSM as part of their follow up reporting. The Audit Committee stressed the need for an improvement in this position for next year. The CEO & Executive Principal accepted this concern and confirmed that the audit action plan will be prioritised. It was accepted that the introduction of management responses as part of the RSM audit reports will help to keep College management to account.

The report was noted.

14. **Any Other Business**

There was no other business raised.

15. **Key messages for the Corporation**

The Chair asked the Committee for the key messages that need to be fed back to the Corporation. The following were raised:

- That, upon her return to work, the Chief Financial Officer has been commissioned to review the Risk Management Annual Report and risk management reporting.
- To highlight the position on the 2019-20 internal audit plan, and the positive opinion in RSM's annual report for 2018-19, which reflected well on College management.
- The outcome of the response to the FE Commissioner's letter.
- The risk on cyber security to be reviewed in light of Swindon College's experiences.
- Improvement needed in the implementation of Audit recommendations.

16. **Date of Next Meeting**

Monday 18 November 2019, 3pm at WISE campus.

The meeting commenced at 2.55pm
The meeting closed at 5.20pm
The meeting was quorate.