



SOUTH GLOUCESTERSHIRE AND STROUD COLLEGE
FURTHER EDUCATION CORPORATION

AUDIT COMMITTEE

Approved minutes of a meeting
Held on Thursday 14 May 2020
Conducted via Microsoft TEAMS

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:	Kevin Hamblin	CEO & Executive Principal
	Jude Saunderson	Chief Financial Officer
	Louise Tweedie	RSM (Internal Audit Service)
	Sharon Glover	Clerk

The Chair opened the meeting by welcoming those present and running through meeting protocols as the meeting was conducted via Microsoft Teams.

1. **Apologies for Absence**

Apologies were received from Tony Felthouse.

2. **Declarations of Interest**

There were no declarations of interests.

3. **Auditor Concerns**

The Chair reported that RSM had been invited to raise any concerns before the meeting and there were no concerns raised.

4. **Other Items of Urgent Business**

There were no other items of urgent business. However, the Chair invited the Chief Financial Officer to provide an update on the financial operations during COVID-19 as this would prove helpful context for the meeting. Members were informed that finance operations were taking place at a distance and that there were no major operational issues experienced and working remotely has worked well. There has been an incredible amount of invoices received by post and have been passed to the College Principal, who has been scanning in. Assurance was provided in relation to cash management, with teams having weekly updates and payroll also working remotely with no staff absence

reported. The College is working hard on its financial reporting and planning due to the impact of COVID-19 and some areas are having to re-do their curriculum planning. There is a focus on preparation of budgets and financial forecasts which has caused a delay with the production of management accounts; which is all taking longer than normal due to remote working. However, overall, all teams are working well remotely.

5. **Minutes of Previous Meeting**

The minutes of the meeting held 18 Nov 19 were approved

6. **Matters Arising From Those Minutes**

- a) Corporation approval of the following was noted:
 - i) The 2018/19 Annual Report of the Audit Committee.
 - ii) The final Internal Audit Service Annual Report and the written resolution of the Audit Committee recommending the revised report to Corporation for approval.
 - iii) The final Financial Statements Auditor's Management Letter.
 - iv) The SGS College Members' Report and consolidated Financial Statements 2018/19 and to note the final version.
 - v) The Letter of Representation to KPMG.
 - vi) Letter of Support to SGS Commercial Services Limited.
 - vii) KPMG's re-appointment as Financial Statements Auditors for 2019/20 (being the third year of a three year period from 2017/18) based on the fee structure previously agreed.
 - viii) The re-tendering of Internal Audit Service for 2020/21.
 - ix) The Counter-Fraud Strategy.
- b) Actions on the Audit Committee action log were monitored and updates provided.

7. **Internal Audit**

RSM presented the following reports:

- a) **FE Benchmarking** – Members received a report comparing assurance levels, management actions and Internal Audit annual opinions across RSM's client base. Members were informed that the College has a consistent profile for internal audit assurance levels, with 0% no assurance reports. Management actions data is broadly consistent however the total average had increased in 2018/19 as there were a number of reports that had a significant change in compliance requirements. 82% of the client base sit in the 2nd audit annual opinion and this is where SGS stands as well.

Members questioned whether the College's performance was below the average generally. RSM advised that although more management actions last year the Colleges in their data base also include sixth form

Colleges which tend to come out more positive. In addition SGS always points RSM to areas for improvement so that is a factor to take into consideration. From RSM's perspective there are no areas for concern and the report is a fair reflection of the College's controls environment. Members also raised the need to be mindful of the staffing difficulties faced last year by the College.

Members raised that the latest audit reports provided only partial assurance and whether this is likely to be a continuing trend. RSM advised that they would be following up on key reports and there is more audit work to be undertaken due to lockdown and a further update will be provided at the next meeting.

Members raised the difficulty in comparing year on year and that the results need to be considered in the context of the reviews and there was satisfaction with RSM's response.

The report was noted.

- b) Revised Estates Management Framework – RSM reported that this report has now been updated, following its presentation at the November meeting, taking into account further evidence received. Members sought, and received, College management assurance that they were satisfied with the report and management actions.

The report was noted.

- c) Framework for Compliance with Legal and Regulatory Requirements: Health and Safety – RSM presented the background of this report, which resulted in a “partial assurance” opinion with one high, three medium and two low priority actions. RSM presented the findings and management actions. In relation to one finding, RSM raised a difference of opinion with College management in relation to the suggestion of a central register of risk assessments. Although no management action arose from this audit, the suggestion related to a process rather than compliance issue and would not be followed up next year. Members questioned why management did not accept RSM's suggestion. The Chief Financial Officer advised that the Head of Estates felt that it was each areas' responsibility to maintain their own lists but the Chief Financial Officer thought that it had got to a point that it was agreed that a central register will be maintained and agreed to double check and report back.

Members noted the involvement of the Head of Digital and Professional Development with this audit and sought clarity of his involvement as he does not have health and safety responsibilities. Members were informed that the trips process is electronic and the Head of Digital and Professional Development, who reports to the College Principal, is looking to develop the process to ensure compliance.

The CEO & Executive Principal reported that the operational lead for health and safety was now the Head of Estates following the departure of the Chief Operations Officer, Commercial & Estates. The Head of Estates is not a specialist in this area and matters of this nature would be considered by the Executive Team who would then instruct the Head of Estates. When asked, confirmation was received that the Head of Estates has a dual reporting role to the CEO & Executive Principal and College Principal. The Health & Safety Committee is a group role, reporting to the CEO & Executive Principal, and Ellis Whittam remains the competent person to which the Head of Estates has regular contact.

Members asked whether the high priority action could be followed up and RSM advised that, if possible, they will undertake further sampling before the issue of their annual report.

The report was noted.

Action: Chief Financial Officer.

- d) Key Financial Controls: Cash Handling and Student Debtors – RSM presented the background to the audit, which had resulted in a “partial assurance” opinion with two medium and six low priority actions. RSM presented the actions and advised that they would follow up the work on student debt during the summer to see if the audit outcome can move towards “reasonable assurance”. Members referred to the College report received on post project evaluation of the new system integration and recalled that there was further work needed to embed the new system. The Chief Financial Officer advised that there had been issues experienced with the links relating to student debt however there was confidence that the figures in the management accounts are accurate. The College is liaising with the suppliers who believe that they have a solution. In the meantime there is additional resource in the finance department to support the reconciliation process.

Members questioned whether the impact of COVID-19 would increase the levels of student debt and confirmation was received that an increased provision had been included in the financial forecasts. A decision has been taken not to chase the debt for three weeks and the debt levels this year were not considered to be extortionate.

Members questioned whether cash collection is occurring at the current time. Confirmation was received that no cash is being taken and that payment is usually via cheques or electronically. Alternative methods of payment are being encouraged with staff taking payment over the phone.

The report was noted.

- e) Progress report, including updates against the Internal Audit Protocol – Members were informed that the Learner Numbers audit is now in draft. Other audits are at various stages and will be discussed with the Chief Financial Officer together with the audit focus for the remaining days. Members raised that the financial plan and budget control have virtually been completed and, when asked, it was confirmed that an audit could be undertaken remotely.

Members asked for RSM's opinion of the Learner Number Systems audit and were informed that there was no opinion provided for this scope of audit and that the findings are recurring actions, which is not uncommon due to the apprenticeship changes. Members raised concern if the same issues are arising from last year. RSM confirmed that the Learner Number Systems process is satisfactory but there is a compliance issue with apprenticeship learner numbers being complex to calculate. It was recognised that apprenticeships is an extremely complex area and that not many Colleges are getting clear audit opinions in this area. Members suggested that if the Learner Numbers systems report includes many findings that the Assistant Principal Apprenticeships is invited to attend the next Audit Committee meeting.

Having considered the balance of opinions this year there is a less positive position than in previous years. RSM advised that if the two partial assurance audits presented today could not move to "reasonable assurance" then the overall audit opinion could be a challenge. Members suggested the days in the audit plan could be reallocated to follow up work with the aim of achieving a positive end of year opinion.

Confirmation was sought, and received, that the Chief Executive Officer & Executive Principal and Chief Financial Officer were content with this report.

The report was noted.

8. **Gifts & Hospitality Register and Fraud Register and Whistleblowing Register**

Members considered the gifts and hospitality register and the Chief Financial Officer reported that any items over £30 had to be disclosed, in line with the Financial Regulations. Anything over £30 had to receive prior approval and confirmation was received that the items reported had been. Members questioned whether there was any upper limit and although not explicit judgement is to be used and the Chief Financial Officer read out an extract from the Financial Regulations.

Members noted that there were no entries on the Fraud Register and the Clerk reported that there were no whistleblowing instances to report.

The registers were noted.

9. **Audit action plan**

The Chief Financial Officer reported that, as requested by the Audit Committee, a summary of actions had now been included as part of the audit action plan. Confirmation was received that actions from the new audit reports are yet to be added and work has been undertaken to ensure priority is given to the actions. Members were informed of one action shown as complete but is in need of review as there was a misunderstanding of action expectations.

The report was noted.

10. **Risk Management**

a/b) Review of the risk criteria in the Risk Register and Risk Management and Assurance Policy – At the request of the Audit Committee the Chief Financial Officer reviewed the risk criteria in the Risk Management and Assurance policy. At merger a new risk register had been developed based on a 6x6 risk matrix and although this had worked well it reported many low priority risks that were considered to be operational. Having looked at other College's risk registers the Chief Financial Officer proposed moving from a 6x6 risk matrix to a 5x5 risk matrix. The College risk register had been updated based on the new criteria so that the Committee could see the impact of these changes. However, the SGS Commercial Services risk register had not yet been updated. Members raised some inconsistencies in terminology in the policy and the Chief Financial Officer agreed to review and update. The Chief Financial Officer also agreed to update any reference to reporting to ensure it reflects new proposals where applicable, with revisions to the policy being reviewed by the Chair of the Audit Committee.

It was resolved:

To recommend Corporation approval of the Risk Management and Assurance Policy, subject to changes discussed.

**Action: Chief Financial Officer.
Chair of the Audit Committee.**

c) Review of the full risk register (including subsidiary company) and COVID-19 risk register – Following review of the risk registers members raised that when the separate COVID-19 risks transfer into the College risk register the impact of COVID-19 implies the risk is higher. Although the COVID-19 risk register was considered to be comprehensive the SGS risk register didn't reflect longer term impacts and fraud risks should be higher. The Chief Financial Officer concurred that the SGS risk register requires further attention as the current focus had been more on the COVID-19 risk register and COVID-19 will increase risks. Further anomalies on the College risk register were raised for the Chief Financial Officer to review. In light of COVID-19 members questioned whether there should be more frequent oversight of the risk registers. The Clerk raised that bi-weekly COVID-19 meetings are in place if needed to be

used as a means of oversight of the risk register. Concern was raised that the main risks are not being reviewed due to the focus being given to the COVID-19 risk register. Members raised that it is not practical to go through the risk registers in detail and that there should be dashboard reporting to Corporation of the top 10 risks. It would be helpful to receive a quick view of the risks and understand trends and mitigating actions. Possibly an executive summary of risks should be presented at Corporation meetings. The CEO & Executive Principal advised that the risk registers are live documents and the College is trying to distil information in order to report on primary risks or any significant changes. Members concurred that the accompanying risk management review report had been helpful and it would also be helpful to have one sentence under each risk to explain the rationale for the changes. Members also discussed the point at which risks are reported to the Audit Committee and it was proposed that all oranges and reds with a score of 10 or more are to be reported upon. For anything major or higher then it should be reported how the risk is being reduced. Proximity of risk being realised was also raised to be factored in and the consideration of mitigating actions.

The CEO & Executive Principal raised concern that efforts have been made to try and reduce the risk register but now it appeared to be increasing again and there was confusion over what the Audit Committee now required. There is a danger of reporting on everything instead of focusing on the significant risks and allowing the operational risks to be managed within the College. Consideration should also be given to the time taken to maintain the registers. The Chief Financial Officer explained that by moving to a 5x5 risk matrix the aim was to focus on the high key risks with a view of only reporting the significant risks to Corporation. Members raised that the risk register is an operational tool and that the Corporation is more interested in the risk management process and the significant risks, together with the probability and proximity of risks. The Chief Financial Officer confirmed that there is consideration of risk likelihood and this is factored into the scoring.

The Chair summarised that there should be more frequent reporting to Corporation of the top 10 risks with the understanding that College management are to concentrate on mitigating the amber/red risks that score 10 or above with these risks being presented to the Audit Committee. The Chair offered to discuss the reporting threshold further off-line with the Chief Financial Officer ahead of the next Audit Committee meeting.

The report and risk registers were noted.

Action: Chair of the Audit Committee & Chief Financial Officer.

11. **ISO 27001**

The Chief Financial Officer reported that the ESFA funding agreement no longer requires Colleges to comply with ISO 27001. However, IT is working towards Cyber essentials certification. Due to other priorities progress towards this certification was unknown and Ben Short offered to follow up with the Group IT Director.

The report was noted.

12. **College returns and Assurance processes**

The Chief Financial Officer presented the report and advised that a checklist has been developed from documents provided by RSM and the first draft of the checklist was appended to the report. Although the checklist was helpful to understand the assurance that is obtained for the CEO & Executive Principal and Chief Financial Officer further detail about qualitative assurance was raised. The Chief Financial Officer confirmed that this was an evolving checklist which would continue to be developed over next year's College cycle.

The Clerk asked when this checklist should be scheduled to be presented to the Audit Committee and it was agreed that it should be presented at the November Audit Committee meeting with a further update at the June meeting. Confirmation was also sought, and received, that any risks or issues would be reported by exception rather than wait until the time of the presentation of the report.

The report was noted.

13. **Counter-Fraud training**

Members received a report in relation to counter-fraud training and were informed that the training is behind schedule due to COVID-19. However the key risks relating to fraud are receiving a higher profile and are being communicated together with regular staff updates from the Group IT Director.

The report was noted.

At this point Louise Tweedie from RSM was invited to leave the meeting.

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

Due to the current situation it is proposed to recommend to Corporation to delay the re-tendering of Internal Audit Service from this year until next year (2020/2021). Confirmation was received that the tender documentation is ready when needed and it was proposed to review the situation at the September Audit Committee meeting.

It was resolved:

To recommend to Corporation that the re-tendering of the Internal Audit Service is delayed from this year until next year (2020/21).

15. **Key messages for the Corporation**

The Chair proposed the following key messages for the Corporation:

- Helpful update received from the Chief Financial Officer in relation to the financial management of the College.
- Internal Audit reports – concern re: profile of overall conclusion and form of Internal Audit report. Two early reports are to be updated and planned audit work to be completed.
- Risk Management – policy update.
- Re-tendering of Internal Audit Service.

16. **Any Other Business**

Members questioned whether there were any updates from ESFA about the deferment of the annual audit opinion as the date for the Local Authority end of year accounts had been put back. RSM had advised that it was believed that they would be able to provide an annual audit opinion but the opinion outcome would be based on earlier discussions. Confirmation was received that there has been no communication from government about changing the date for the production of the annual accounts. The Chief Financial Officer also reported that following a planning meeting with KPMG requirements have stayed the same. The Chief Financial Officer reported that there will be significant additional auditing requirements this year due to Higher Education financial reporting requirements. KPMG are looking for an additional fee of £3k which is being negotiated as the Chief Financial Officer considered this to be a significant increase. The Chief Financial Officer also advised that the budget to be submitted to governors in July would be based on many assumptions and unknowns and would require further review in November.

17. **Date of Next Meeting**

Thursday 11 June 2020, 4.00pm. Venue: To be Confirmed.

Due to the close proximity of this meeting the Chair asked the Chief Financial Officer and Clerk to consider whether this date should now be later.

The meeting commenced at 3.07pm

Dave Merrett left the meeting at 4.37pm (during item 11)

Louise Tweedie left the meeting at 4.47pm (after item 13)

The meeting closed at 4.56pm

The meeting was quorate.