

**EASTLEIGH COLLEGE BOARD  
MINUTES OF THE AUDIT COMMITTEE, MEETING HELD ON WEDNESDAY 4 NOVEMBER 2020,  
1700 HRS, USING 'TEAMS'**

**Present:**

Mairead Taylor (Chair)  
Jem Musselwhite  
Bernie Topham  
Phil Harris-Bridge (from item B.23.20)  
James Heaton-Smith

**In attendance:**

Kevin Jones	Vice Principal Finance, Funding & Management Information
Karen Shaw	Southern Internal Audit Partnership
Frances Millar	RSM UK Audit LLP
Dr Chris Davis	Clerk to the Board (minutes)

**PART ONE OF THE MEETING**

**A.18.20 GOVERNORS' MEETING TIME WITHOUT SMT**

No matters discussed.

**A.19.20 COMMITTEE MATTERS**

**i Apologies**

There were no apologies.

**ii Declarations of interest**

There were no declarations of interest, financial or otherwise, in any items on the agenda.

**iii Minutes of last meeting**

The minutes of the meeting held on 20 May 2020 were agreed as a true and accurate record.

The minutes of the meeting held on 20 May 2020 were agreed and signed.

**iv Matters arising**

Mrs Taylor enquired about the progress of the actions against Mr Jones relating to:

- Debtors and cash income. (Debt collection process)
- Debtors and cash income. (Pricing reviews for College commercial areas)
- Employer liability insurance.
- Bursary funds. (Balance managed/returned to ESFA.)

Mr Jones said that the first three bullet points were statements of fact and therefore did not require any further action. With regards to the fourth bullet point regarding Bursary funds this was still on going and he did not have a report to present to the Committee at this time because of the timing of this meeting. He had however reported how much had been spent in the July management accounts. He concluded by saying that COVID-19 was still a developing situation and bursary money was still being spent to support learners.

**v Review Operation of Committee**

The Clerk reported that it was time for the annual review of committee terms of reference.

The Chair asked if Governors if they had any amendments they wished to make.

The following corrections/amendments were made:

- 4.1; (it was felt needed further clarification):  
The committee shall be appointed by the corporation and consist of:  
Up to five corporation members (~~excluding~~ not including members of the corporation's Finance and General Purposes Committee, governors with significant interests in the college, the Chair of the Corporation, the Chief Executive and Principal, and Staff Governors if they have significant managerial responsibility for college financial, personnel or student record systems.) The tenure for all members will be reviewed every two years.
- 5.2; needed clarifying:  
"The meetings will be sub-divided into part 1 and part 2. During part 1 other corporation members shall have a right of attendance. For part 2 the committee may, when they are satisfied that it is appropriate, meet with representatives of the internal and/or external auditors ~~without the Chief Executive and Principal or senior managers~~ without members of the Senior Management Team being in attendance. Part 2 will be minuted by the Clerk to the Board."
- 5.4; The title 'Finance Director' should be deleted and replaced by the title 'Vice Principal Finance, Funding & Management Information'.

It was agreed that an amended version of the Committee's Terms of Reference would be sent out via an email for recommendation to the Board for approval.

**Post meeting:**

*Governors recommended (via email dated 5 November 2020) that the Operation, including the Terms of Reference, for Audit Committee be recommended to the Board for approval.*

**A.20.20 GOVERNORS' MONTHLY REPORT (August/September)**

**i Financial aspects**

Mr Jones reported that the original Budget deficit of £774k is likely to be reduced per the September year to date forecast to a deficit of £448k. This improvement is due in part to additional 16-18 allocation to support learner with lower GCSE scores through additional small group learning. The improvement also reflects the latest HE and Access student enrolments. The negative impact of the subcontractor potential impropriety had also been included in the budget with the cancelling of the subcontractor's apprenticeship contract and this reduces both income and expenditure. The other item included was the checking of the salary costs and confirmation that the College is still on track to achieve the tight staffing target for the year.

Mr Jones then referred to the September report, which has potentially highlighted more income release to be announced for traineeships, which may reduce the deficit further.

The cash position is strong which includes the £1.1m for conditions work on the College received in September 2020. The College is undertaking large tender exercises so that work can be completed by 31 March 2021.

**ii Matters arising**

There were no matters arising.

Governors noted the financial aspects and matters arising in the Governors' Monthly Report, August -September 2020

#### **A.21.20 AUDIT COMMITTEE ANNUAL REPORT TO THE BOARD**

Mr Jones said that the report was an annual requirement of the Joint Audit Code of Practice, covering a summary of the committee's activities for the year under review, including any significant issues arising and any significant matters of internal control included in reports received from auditors or other assurance providers. It provides the committee's view of its own effectiveness and how it has fulfilled its terms of reference.

Also included in the report is the committee's opinion on the adequacy and effectiveness of the College's audit arrangements, its framework of governance, risk management and control, and its processes for securing economy, efficiency and effectiveness.

Mrs Taylor asked whether the Committee would receive updates on the three issues arising from the financial statements audit:

- clarification of the 'going concern' in the context of the bank loan extension
- COVID19 impact on apprentice numbers in the 2020/21 budget
- accounting treatment of the sub-contractor fraud event

Mr Jones said that the audit process is not yet complete and this is reflected in the report from RSM to be discussed later in the meeting. The draft version of the accounts is just days from completion and the reconciliation and the R14 return, can be completed following the final submission date of 3 November 2020. The timing of the meeting and ESFA deadline meant that a final version could not be updated in time to be included for this meeting.

Governors reviewed and submitted the Audit Committee Annual Report to the Board.

#### **A.22.20 AUDIT MATTERS**

##### **i Progress report on implementation of recommendations of previous audit reports**

Mr Jones informed Governors that the report had been supplied in a new format. There were still two recommendations that had not been completed and were still on-going:

- Debtors and cash income. Debt collection process
- Bursary funds balance

He said that all the other recommendations had been completed and he asked for the Committee's approval to delete these from the report.

Mr Heaton-Smith felt that the report did not map the progress of the recommendation it simply provided a comment. He felt it might be more useful to frame the actions and progress to date against a named individual, rather than stating 'on-going', more clarity was needed.

Mrs Taylor agreed and thought that along with that information it might be useful to provide what the barriers are to completion.

Mr Jones said that these were all sensible suggestions and in the context of the development of the report there was still some work required to develop a clear and usable document.

**ACTION: KJ**

Governors noted progress on implementation of recommendations made in previous audit reports and agreed to remove completed actions from the report.

Governors recommended the Internal Annual Audit Report and Opinion 2018/19 to the Board for approval.

**ii Internal Audit Report – Visit One 2020/21 (update)**

Mr Jones said that Visit One would be going ahead in the next few weeks and would be looking at procurement and subcontracting. At the same time they would also be arranging a schedule for Visit Two shortly, all visits would take place remotely.

Governors' received the update on Internal Audit Report – Visit One 2020/21.

**iii Internal Annual Audit Report and Opinion**

Ms Shaw explained that this was a standards report, which provided an annual opinion on the overall adequacy and effectiveness of the College's framework of governance, risk management and control.

In the opinion of the report, Eastleigh College's framework of governance, risk management and control is adequate and audit testing had demonstrated controls to be working in practise, which she said was a positive outcome.

Mr Heaton Smith asked about the potential impropriety of a subcontractor issue and whether the report's findings fairly reflected this situation.

Ms Shaw responded by saying that Internal Audit had not been informed of the situation until after the report had been completed (21 October 2020) and therefore there was no referral to the issue and as the report is for year 2019/20, the report remains extant. She went further by saying that the checks and controls of the College had identified this potential impropriety and therefore potentially reaffirms the adequacy of internal controls.

Mr Jones said that the investigation was still on going and the College was still waiting for the final report from ESFA.

Ms Shaw requested that Internal Audit be kept fully abreast of any future developments and receive a copy of the final report, so that they might be able to build this into their future audit planning.

She concluded by informing the Committee that Southern Internal Audit Partnership recently been audited by the Chartered Institute of Internal Auditors (CIIA) and they comply fully with the mandatory elements of the Public Sector Internal Audit Standards and the Institute of International Professional Practices Framework.

Governors noted the Annual Internal Audit Report and Opinion

**iv Feedback on External Audit liaison with Southern Internal Audit Partnership**

Ms Millar reported that the External Auditors had received and reviewed all the Internal Audit processes and paperwork and there were no issues arising during the year, however she reiterated that no reliance could be placed on their audit opinion.

Governors noted feedback regarding external audit liaison with Southern Internal Audit Partnership.

**(Confidential items)**

- v External Audit Progress re 2019/20 closure and associated External Audit Management report;**  
(See Confidential addendum).

Governors noted External Audit progress re 2019/20 closure and audit finding report.

- vi External Audit Findings report 2019/20 (Interim report as of October 2020)**  
(See Confidential addendum)..

**(End of (Confidential items)**

- vii Letter of Engagement, RSM UK Audit LLP**

Mr Jones said that this was a revised version of the letter and has not come to Committee recently because the Audit Code of Practice had not changed. The letter will have to be signed by the Chief Executive and Principal in his position as the accounting officer and also as a Governor. The revised letter reflects the changes in the new Audit Code of Practice.

Governors approved the Letter of Engagement, RSM UK Audit LLP and asked that the Chief Executive and Principal sign and return the letter at his earliest convenience.

- viii Approve Procedure for appointment of External and Internal Auditors 2021/22**

Mr Jones made Governors aware of the proposals to tender for the appointment of External and Internal Auditors for 2021/22 and the need to reappoint on an annual basis in subsequent years.

He said the College had planned to run a tender process for internal and external audit during 2019/20 with an aim for newly appointed service providers to commence roles from 1 August 2020. This action was delayed as the 2018/19 accounts were completed late and there were changes of staff directly involved in the procurement progress. This included the Vice Principal Finance, Funding and Management Information taking up the role in March 2020.

The College plans to use an existing framework to simplify the shortlisting and then run a mini-competition. The internal and external audit tenders will run in parallel and service providers may submit proposals for either or both services.

Ms Shaw made Governors aware that Southern Internal Audit Partnership could not be included in any framework and the partnership would have to withdraw at this stage of the tendering process.

Mr Jones said he would take this point when considering the final tendering process.

**ACTION: KJ**

The tender will have a defined timeline so that it does not interfere with the audit process.

Governors noted the plan and timeline for re-tender of both internal and external audit service providers.

**A.23.20 RISK MANAGEMENT**

- i Risk Management Board (RMB) minutes, 8 October 2020**

Mr Jones summarised the minutes of the meeting and reported that the RMB had undertaken a robust review of the Risk Register and Risk Reduction Plan and summarised some of the amendments made.

The RMB also agreed that the Risk Register and Risk Reduction Plan were too big and needed a new approach. This would be discussed in a later agenda item.

Governors noted the minutes of the Risk Management Board meeting held on the 11 October 2019.

**ii Risk Management Policy**

Mr Jones informed Governors that there were a few minor changes made to the Risk Management Policy.

Mr Heaton-Smith was surprised that there was only one page to define a policy and asked if it really provided enough detail around the process. Perhaps we should explore what other colleges do and to adopt a framework which the College might use to undertake its risk management. He said that there was also a need for clear ownership of risks identified.

Mr Jones confirmed that there are documents, which sit behind the Policy and support the process.

Mr Jones said that in line with potentially changing the Risk Register that this may impact and change the Risk Management Policy.

Governors approved the Risk Management Policy.

**iii Review Governors risks on the Risk Register**

The Clerk reminded Governors that they had approved decision to review the Governance section of the Risk Register every 6 months. The last review had taken place in May 2020.

Mr Jones confirmed that although there was an intention to change the Risk Register the details and process of current risk management needed to be adhered to. There was a requirement for an auditable trail, which took the old process into the new.

Mr Heaton-Smith suggested that risk 7.1 needed to be rescored as a result of the recent recruitment process, which the Board had undertaken; he felt that the use of Governors' time needed to be spent on genuine risk.

Mrs Topham agreed but felt that it might be better to wait until a new Risk Register and framework had been approved before spending valuable time on rescoring risks in the old register. She asked for this risk to be considered within the list of risks that needed rescoring should a new framework be introduced.

Governors' agreed to this proposition.

**ACTION: CD**

Mr Heaton-Smith said that that perhaps as part of the new framework, risks should only be brought to the Board if they were in the high category or needed rescoring because of an increase in the material risk.

Governors' reviewed the Governors' risks on the Risk Register.

**iv Proposal to change Risk Register**

Mr Jones began by explaining the background to the current Risk Register (51 pages) and Risk Reduction plan (25 pages). This approach he said has been well received by Governors and has also received positive feedback from Internal Audit reviews. However, the documents have, through continuous additions, become too large and unfocussed to support management decisions. The risk management process has become bureaucratic and responsive, rather than being a tool to support management decisions

The recent FE Commissioner Diagnostic Assessment also recommended that the Risk Register was 'overly complex' and needed more clarity.

The proposal is to have a register of perhaps 14 risks (as discussed and proposed by SMT and RMB), with each risk backed by a more detailed risk management document. A summary framework will enable clearer tracking of each risk (risk owner, managers, review date and scoring high or low).

Mr Harris-Bridge felt that there was a strong need for Governors to understand gross and net scoring of risks. The role of Governors in accessing and understanding how risk is effectively managed in the organisation:

1. Ensure that there is documented a list of strategic risks which contain the key information that prevents the organisation from reaching its strategic objectives.
2. The role of Governors is to ensure that there are plans in place to mitigate the risk from the level it is at; to the level you want it to be (a risk appetite assessment).

In clarifying he said that what is needed is for Governors to understand what the gross risk is; secondly what the mitigating measures being put in place are (who is responsible and when) and finally what is the residual risk (net risk) that results from that action.

Fundamentally that is what the Governors' role is, to take assurance and understand what is trying to be achieved to get from gross to net (the combination of actions taken, controls and mitigation plans).

Mr Heaton-Smith said it would be a developing process and would change over time. He felt it was important to know that the gross and net risk was being considered in the background, but for him it was important to understand the risks and the trend and being focused into the right areas.

Mr Musselwhite said he had sat in on several RMBs and felt the proposal was quite refreshing.

Mr Heaton-Smith felt that in terms of language the title needed to be less emotive, simply College Risk Register or Risk Register would be better.

Mrs Topham felt that this was a timely proposal and the change would greatly enhance and support the College's new strategic direction.

Mrs Taylor agreed that this would be an evolving process but would provide much more clarity to Board members.

Governors approved the proposal to change Risk Register.

Mr Jones said he would be providing a new list of risks to bring the Board.

**ACTION: KJ**

#### **A.24.20 TO RECEIVE**

##### **i Self Assessment of Compliance with Regularity and Propriety Requirements**

Mr Jones explained that this was a document that is required for the financial accounts. He confirmed that it had been reviewed by the auditors, but has not been signed off.

He concluded by saying that there were still some figures to cross check and update, as he felt the figures were based on last year's numbers. He asked the Committee to confirm that this was a fair assessment of the College's regularity.

Mr Harris-Bridge asked for some further clarity and understanding on where the report actually goes to.

Ms Millar said that it feeds in to the regularity audit and goes alongside the financial statements audit, it also self-assesses and identifies any areas of risk or change which provides the auditors with information that they might want to adapt to their procedures of audit.

Mr Harris-Bridge felt that it was a rather 'long-winded' document and perhaps it would be more useful for Governors to receive an executive summary highlighting the things that the Committee needs to be aware of and concerned about.

Mr Heaton-Smith wondered if a RAG rated column showing against each area enabling and identifying compliance or not, might be the solution.

Mr Jones confirmed that the layout is provided to us, so there is no scope to remove sections, however the College can add to the report and agreed that RAG rating could be included to provide additional guidance in the report.

Governors' agreed that this would be a very useful tool and would help the process of interpreting the report more speedily.

**ACTION: KJ**

#### **B.25.20 TO REVIEW**

##### **i ESFA, The scope of work of audit committees and internal auditors in college corporations**

The Clerk explained that the document had been produced by ESFA and provided a guide on good practice for governors, CEOs, principals, clerks and finance directors.

Mr Heaton-Smith made a general comment about the agendas produced for Board and Committee meetings and felt that it might be beneficial to all governors if there could be a reference to what was required of the governor in terms of action. Was the item for information only; was the item requiring a decision/approval or was there a need to simply review. It would save a great deal of time if the items could be classified so that the reader could be guided to exactly what was required of him/her.

Governors agreed to this proposal and the Clerk said he would attempt to improve this situation when producing future agendas.

**ACTION: CD**

Mr Harris-Bridge felt that what was not made clear in the ESFA document was the segregation between internal audit work and external audit work; what had been produced was a list of topics mostly of a financial nature and did not really encompass the wide ranging undertakings of internal audit. He asked Mr Jones if he was comfortable that the work of the Audit Committee encompasses both the remit of internal and external audit as described in the ESFA document.

Mr Jones felt that the Committee covers both internal and external audit and this is greatly enhanced by having both auditors represented at the Committee meetings.

Mr Harris-Bridge felt it might be useful to supplement the document with headings that correlates to internal and external audit.

Ms Shaw felt that over past few years there had been a dilution of internal audit with colleges no longer needing internal audit to be carried out. However when drawing up the internal audit plan, they could always look at the headings listed referred to in the report.

Governors' received the ESFA report, The scope of work of audit committees and internal auditors in college corporations.



## **B.26.20 TO CONSIDER**

### **i Confidential items**

The Committee agreed that agenda items 5.vi and 5.vii would be determined as confidential agenda items and will be annotated as such within the minutes of the meeting.

## **A.26.20 DATE OF NEXT MEETING**

**Wednesday 10 March 2021 commencing at 1700 hrs**

Progress report on implementation of recommendations of previous audit reports

Internal Audit report – visit two 2020-2021

Review Performance of External Auditors against Pls

Review Risk management

Regularity Audit SAR

Anti-Bribery Policy

Governors' Monthly Report – including financial aspects and matters arising

Mr Jones retired from the meeting.

**(Confidential item)**

## **A.27.20 PART TWO OF THE MEETING**

Ms Millar and Ms Shaw were given the opportunity to raise concerns with Governors over the audit process.

Ms Shaw reiterated her point about the issue of the potential impropriety of a subcontractor, saying that it is really important that the internal auditors are made aware of the situation at the earliest opportunity, they had not been informed until October 2020 (planning meeting for visit one). She said she was still unsighted about the full details of this situation.

Ms Shaw requested that Internal Audit be kept fully abreast of any future developments and receive a copy of the final report, so that they might be able to build this into their future audit planning

Ms Millar had a point to make about the timing of the Audit Committee meeting and said that this was crucial so that the necessary work can be carried out in a timely fashion. With all the funding adjustments, it had been difficult for management to get all the necessary information out for external audit to turn around in time for the meeting.

The Clerk will ensure that the meeting is later in the month in next years calendar.

**ACTION: CD**

Governors were given the opportunity to raise any concerns with the auditors; there were no issues raised.

**(End of Confidential item)**

There being no further business, the meeting closed at 1905 hrs.