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EXETER COLLEGE FURTHER EDUCATION CORPORATION

AUDIT COMMITTEE

Minutes of the meeting held on Wednesday 28th September 2016 in the Board Room, Hele Road, Exeter College

Present	Chris Hoar	Chair
	David Batho	
	John Coombs	
	Elaine Hobson	
	Dave Underwood	

In Attendance

	John Laramy	Principal
	Steve Campion	Vice Principal Finance and Business Operations
<i>To item 10.3</i>	Heather Ancient	PwC
<i>Item 10.1 only</i>	Richard Brine	Head of Information Learning Services
	Derek Fargher	Interim Financial Controller
<i>To item 10.3</i>	Paul Putnam	Grant Thornton
	Barbara Sweeney	Clerk to the Corporation

Apologies	Steve Johnson	Grant Thornton
	Emily Steed	PwC

1. **Welcome and Apologies** **Action**

The Chair welcomed colleagues to the first meeting of the new academic year and noted that the Committee was unchanged from last year, thereby providing continuity. He particularly welcomed Heather Ancient from Pricewaterhouse Coopers and Paul Putnam from Grant Thornton.

Apologies were received.

2. **Minutes**

Minutes of meeting held on 15th June 2016

The minutes and confidential minutes of the meeting held on 15th June 2016, as circulated, were agreed and signed by the Chair.

3. **Matters arising**

3.1 Board Decisions

The report advising what actions had been taken on recommendations

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from this Committee presented to the Board was received and noted.

There were no other matters which were not covered elsewhere on the agenda

4. **External Auditors**

4.1 External Audit Plan for year ending 31 July 2016.

The report detailing Grant Thornton's Audit Plan for the forthcoming audit of the statutory accounts was received. Paul Putnam, Associate Director, Grant Thornton, highlighted the key issues.

He alerted the Committee to developments relevant to the College. From the year ending July 2016 the College was required to report under FRS102 and the new SORP for the education sector. This had necessitated changes to financial reporting and was therefore regarded as a significant risk. However the College was on track with the transition.

Key risks were typical for the sector and RAG rated. They included tangible fixed assets, relevant given the recent capital builds, trade creditors to ensure creditors were recorded in the correct period. The audit would review staff costs and whether employee remuneration costs were correctly stated, and income, to provide assurance against presumed risk of incorrect revenue recognition. In addition to the significant risk of the FRS 102 changes, management override of controls would be tested. Pension scheme liabilities were also a key area of focus.

Paul highlighted the audit's approach to materiality, which applied to monetary misstatements and also disclosure requirements and adherence to acceptable accounting law. Regarding the regularity audit, the SFA requirements were unchanged from last year and included reviewing the College's self-assessment questionnaire and controls assessed as key to ensuring the regularity of the College's transactions.

Paul confirmed that other work undertaken during the year had included a review on tagging of accounts and the Teachers' Pension Scheme contributions return.

Fieldwork for the external audit would commence on Monday 3rd October 2016. The Committee would receive the report at its next meeting on 30th November 2016 for Board approval on 9th December 2016.

The Committee confirmed that it was content with the scope of the audit, and agreed to:

Recommend the External Audit Plan to the Board on the 7th October 2016.

Vote: Unanimous

5. **Internal Audit Service**

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5.1 Project reports:

- Business continuity

The report, giving medium overall risk, was received and considered. Heather confirmed that the review of Business Continuity was completed by a specialist team testing against industry standard ISO22301 and was conducted as part of the 2015/16 audit plan. It included an assessment of whether there were effective controls operating over Business Continuity Management. There were three medium and two low risk recommendations. However overall there were good foundations in place.

The Business Continuity Group did not fully represent the depth and breadth of the College. This resulted in the risk that the plans and strategies might be ineffective. The agreed actions were for the membership and frequency of meetings, with a meeting to update key documents. The Group would report progress to the Senior Leadership Team and the policy would set out when and how the Group should report to the Board, such as in the event of an incident or to report the outcome of an exercise and the lessons learnt.

The second medium risk finding was that the Business Impact Assessment had not been updated with an increased risk that prioritisation of activities may be incorrect, or that some critical activities were not identified which might prolong the impact of a systems failure. This would be updated.

The third medium risk finding was that there was no overarching Business Continuity Plan, although there were a number of relevant documents including risk assessments, option cards and a duty handbook which included information that would be relevant to the development of a Business Continuity Plan. This would be rectified, and the key decision maker identified in the event of an incident.

Two minor recommendations included developing an overall policy and conducting scenario rehearsals.

The Principal confirmed that there was a new focus on business continuity and the recommendations would support taking this forward. There was an identified lead to address the actions and promote standardisation.

The Committee noted that recent incidents, including the impact of floods on transport links for students and a power cut affecting IT, had been well managed with effective mitigations. A member of the Committee with experience in managing major incidents would attend a scenario rehearsal.

The Committee noted the report.

- Core financial controls

The report, giving low overall risk, was received and considered. The review was undertaken in line with the internal audit plan. Key controls

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were well designed and operating in practice. There was one low risk finding, which had been flagged by management ahead of the review. The individual debtor balances were transferred to the new finance system from the start of the financial year. The new system was designed to flag when letters should be sent out to chase outstanding debtor balances but this process was not operating effectively. The College was updating all procedures and regulations and would identify realistic dates for chasing debts within the new versions.

The Committee noted that Finance, Funding and MIS had all been brought together as a single Department with significant benefits. Core systems, including the new financial system, were working well, and providing enhanced reporting. The transition to the new financial system had been unusually smooth and it was rare to have such a clean audit following such a transition.

The Committee noted the report.

5.2 Monitoring Table
The item was taken together with item 6.

6. **Internal Audit Service Annual Report for 2015/16**

The report was received and Heather confirmed that the report provided a summary of all reports undertaken during the year, both traditional and specialist. The reports had been received by the Committee and therefore there were no surprises.

The Committee considered the direction of travel. The last Annual Report in 2015 recorded particularly clean audits. The increase in recommendations in the Annual Report 2016 demonstrated that the more targeted reviews, directed to areas of highest risk, was a more appropriate use of the internal audit resource and better value for money. Heather confirmed that the Annual Report showed nothing untoward.

More significant was the implementation of recommendations. The rejection rate was considered and confirmed as low. Examples in the IT security review were cited, where findings were more relevant to larger organisations. At the close out meetings of a review, management and auditors discussed areas of dispute. Occasionally additional evidence was requested and provided. A more likely scenario was a dispute between the significance of the finding; whether low medium or high risk. If disputes were unresolved, particularly if medium or high risk, the auditors would alert the Audit Committee.

Heather confirmed that target dates for completion of actions was important. It was better to have realistic expectations rather than missed deadlines.

The Committee agreed to

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Recommend the Internal Audit Service Annual Report for 2015/2016 to the Board for approval at its meeting on the 7th October 2016.

Vote: Unanimous

7. Internal Audit Action Plan

Progress Update

The report was received. Derek summarised the progress against outstanding actions.

Engineering Aerospace and Automotive had reviewed the attractive asset register and the action was completed. The two outstanding actions following the review of HR and payroll would be completed once the updated Financial Regulations and Expenses Policy received Board approval. All recommendations for Procurement and Financial controls were completed and the target dates for the recent Business Continuity review had been realistically set.

The Committee agreed to remove the completed actions from the Internal Audit Action Plan and the Committee agreed to:

a) Note the report.

b) Remove completed actions from future reports

8. Internal Audit Risk Assessment and Plan 2016/17

The report was received. The Internal Auditors had met with management and agreed a programme of testing.

For assurance of regularity, every year the Skills Funding Agency (SFA) reviewed the student records systems at a number of colleges, either because of known high risk or through random sampling. Although the College had not been notified that there would be in inspection in 2016/17, there had been no review for several years and it was appropriate to test controls.

The Committee considered the subcontractor review. Last year this had been required as the College's provision was just above the value threshold requiring independent assurance. With subcontractor provision declining, would there still be a requirement for a review, or could the contingency days be better used to provide a more detailed assurance of emergent issues? If agreed, this would increase value for money from the internal audit service.

The Committee requested a further update on declining subcontractor values at its next meeting and whether, based on that information, to recommend a change to the Internal Audit Plan.

The Committee agreed to

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a) Recommend the Proposed Programme for 2016/17 to the Board for approval at its meeting on 7th October 2016.

b) Consider, at its next meeting, whether to recommend an amendment to the proposed programme to redistribute days currently allocated to a subcontractor review.

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Vote: Unanimous

9. **Risk Management Update**

9.1 Risk Management Policy

The report was received. It was a requirement of the Financial Memorandum and Joint Audit Code of Practice that the College have in place a Risk Policy. The Policy had been updated to the College format and was reviewed biennially.

The Quality and Resource Review Days demonstrated that the process for managing risk and the review of the risk register were well embedded into the organisation. No significant changes were proposed, other than updating the risk management implementation timetable.

The Committee agreed to:

Approve the Risk Management Policy and to recommend it to the Board on 7th October 2016

Vote: Unanimous

9.2 Risk Register (September 2016)

The report was received and considered. Steve confirmed that the Senior Leadership Team (SLT) had reviewed and updated the Risk Register and Risk Heat Map. He highlighted the changes from the previous version.

The Committee agreed to:

Recommend the updated Risk Management to the Board on 7 October 2016

Vote: Unanimous

10. **Governance Issues**

The agenda was altered and Item 10.2 was taken next.

10.2 Anti-Fraud Training

The update was received and Steve reminded the Committee that the Audit Plan 2016-17 included anti-fraud training to support the Committee and the College in mitigating against fraud, including IT fraud. Training

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was scheduled for 30th November, 2016, ahead of the next Audit Committee and all governors, including those not on the Audit Committee, would be invited to attend.

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The Committee noted the update

Richard Brine joined the meeting for item 10.1 only

10.1 IT Security Policy

The draft Information Policy, which included IT security, was received and taken as read. Richard highlighted the key issues. The previous version was due for review, particularly given recent examples of breaches internally and externally. The input of PwC over the past two years during the IT security reviews had been valuable in developing the Policy. The balance of maintaining secure systems whilst having systems and processes which were fit for purpose was key. It was evident that the actions of people was the biggest risk.

Successful communication and implementation of the Policy was important and there would be mandatory training for new staff during induction and refresher training for existing staff.

The Committee considered the frequency of password changes for Governors, who, with the exception of staff and student governors, used the College accounts for Boardpacks only. Infrequent accessing meant that the current 59 day password change, recommended by this Committee and agreed by the Board several years ago, was not efficient. Richard recommended a compromise of annual password changed at the end of the academic year. However this would increase the risk of a breach, and if compromised, accounts could be illegally accessed with impunity for a long period.

If a breach was identified, accounts could be closed quickly, but there was still a risk if the password change frequency was long. Given that for the majority, the use of IT accounts was confined to access to Boardpacks, it was recommended that permission levels be examined so that the risk could be minimised.

The Committee agreed to

a) Recommend the Information Policy to the Board

b) Subject to adequate controls, recommend to the Board annual change of Governors' passwords

10.3 Audit Tendering Process

The report was received and Steve reminded the Committee that the current internal and external auditors were due to complete their agreed contracts on 31 July 2017. The normal practice was to go out to tender for a new 5 year contract this academic year, to take effect from 1st

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August 2017.

It was also sensible to conduct concurrent tendering exercise for both internal and external auditors, commencing the New Year 2017.

The Committee agreed to recommend to the Board that

The tender process for the appointment of the Internal and External Auditors be commenced in the new year 2017 with appointments for 5 years commencing August 1st 2017.

10.4 Committee Self-Assessment

The report, including a draft self-assessment report (SAR) for the Committee was received. The narrative was drafted using responses to questionnaires sent to individual members of the 2015-16 Committee. The Clerk confirmed that the questionnaire would be distilled into a SAR of agreed strengths and areas for improvement.

The Search and Governance Committee had considered the process and agreed that it was excessively onerous. The narrative, with strengths and areas for improvement was drafted by the Clerk. However annual questionnaires were not considered to add value. The Committee had agreed that the evaluation of Board and Committee meetings should be included in the biennial Governor appraisal questionnaire, and that the last meeting in the academic year of the Board and each Committee should include an item of self-reflection.

The Committee agreed to

Recommend that the SAR be incorporated into the Board's SAR and presented to the Quality and Standards Committee for subsequent recommendation to the Board.

Vote: Unanimous

10.5 Items to take to Board

The Committee reviewed the agenda and agreed on the items to be reported to the Board at its next meeting on 7th October 2016.

10.6 Items for next meeting

The Committee reviewed the cycle of business for the September meeting and agreed on additional items to be included in the agenda for the next meeting

11. **Review of Performance of Internal Audit Service 2015/16**

The report was received, using the tool which the Board adopted at its meeting on 3 July 2013. Steve confirmed that he had completed the review as a draft for the Committee to consider, based on Internal Audit Reports and feedback forms following reviews. There were a number of highlighted sections which the Committee needed to complete.

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The Committee considered the report and agreed its response to the outstanding questions.

The Committee agreed to:

Recommend the reappointment of PricewaterhouseCoopers for the financial year 2016/17 to the Board for approval at its meeting on 7th October 2016. BHS

Vote: Unanimous

12. **Dates of next meetings**
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|-----------|---------------------------|------|
| Wednesday | 30 th November | 2016 |
| Wednesday | 8 th March | 2017 |
| Wednesday | 14 th June | 2017 |