

Present: Mr Colin Seccombe, Chair  
Mrs Sheila Alexander (*from 9.10 a.m.*)  
Mr Jon Dudgeon

In attendance: Mrs Rosamund Moore, Clerk to the Corporation  
Mrs Ann-Marie Crozier, Deputy Principal: Finance & Corporate Development (*till 10.45 a.m.*)  
Mrs Susan Ross, Director of Funding & Planning (*till 10.45 a.m.*)  
Mr Chris Moss, Baker Tilly (*from 9.10 till 10.55 a.m.*)  
Mr Mick Thompson, KPMG (*from 9.10 till 10.45 a.m.*)  
Mr James Morgan, KPMG (*from 9.10 till 10.45 a.m.*)

[The meeting started at 9.00 a.m.]

1. **Apologies for absence**  
Mr Swan was continuing his period of leave of absence.
2. **Declarations of interest**  
Deputy Principal: Finance & Corporate Development in restricted section of item 10. **It was agreed that the Deputy Principal, the Director of Funding & Planning and the representatives of Baker Tilly and KPMG would not be present for this section.**
3. **Minutes and Matters Arising from the Meetings of 18 September 2014**  
  
**The minutes of the meetings of 18 September 2014 were approved as a true record and duly signed by the Committee Chair.**  
  
Under *Matters Arising*, item 8, the Committee Chair asked if a date for the risk management workshop could be identified before the December Corporation Board meeting to give all Governors the opportunity to diary the date.  
  
Item 3.a was deferred till 9.10 am.  
  
All other actions had been, or were being, taken forward as agreed.
4. **Funding Audit Tracker**  
The Director of Funding & Planning confirmed that the outstanding actions in the Funding Audit Tracker had been completed since the last meeting in accordance with the deadline. This would be the final report in this regard as the College had not been the subject of an Skills Funding Agency funding audit for 2013/14.  
  
**The Committee was pleased to note that all actions in the Funding Audit Tracker had been completed.**
5. **Internal Audit Tracker**  
The Deputy Principal: Finance & Corporate Development reported that the two actions still to be completed within the Internal Audit Tracker were on schedule for implementation by the December due date. Both actions related to the Teaching, Learning & Assessment Review (TLAR) process and training for existing internal observers and some new managers would be delivered by external consultants following a tendering process in December.  
  
**The Committee noted the progress made to complete actions in the Internal Audit Tracker.**  
  
*Mrs Alexander, Mr Moss, Mr Thompson and Mr Morgan arrived at 9.10 a.m.*

**ACTION**

**RMM /  
AMC**

In response to Mr Thompson, the Committee Chair confirmed that items 4 and 5 had been covered. Mr Thompson observed that good progress was being made by the College in respect of audit recommendations. He hoped that KPMG would be able to corroborate management's view about their completion as part of KPMG's follow-up work later in the year.

**3.a The Committee returned to the Confidential Report under item 3.a of the agenda.**

*A separate, confidential minute was taken of this item which would be reported to the Corporation Board in December.*

**6.a Management Report for the Year ended 31 July 2014 (Baker Tilly UK Audit LLP)**

Section 1 Introduction and coverage: Mr Moss highlighted the three revisions to the Regularity Audit Framework which the Skills Funding Agency (SFA) had revised since Baker Tilly had presented its audit plan to the Audit Committee on 19 June.

Historically external auditors had been required to report on propriety and this was no longer the case. (In this context 'propriety' meant the man in the street's view of whether the College had spent its funding from the SFA and EFA in the right way which was a subjective judgement.) Nevertheless, Baker Tilly would continue to exercise its professional judgement and report matters that, in its view, could be challenged by 'the man in the street'.

The wording of the opinion had changed and was linked to the new requirement for the Statement on Regularity, Propriety and Compliance with the Terms and Conditions of Funding which had to be included in the College's Corporate Governance and Internal Control Statement.

Mr Moss explained that Baker Tilly continued to review the College's Self-assessment of Compliance with Regularity and Propriety Requirements, but that there was now a requirement for it to be reviewed and approved by the Chair of Governors and the Accounting Officer (i.e. the Principal). This formed part of the evidence supporting the Statement on Regularity, Propriety and Compliance. The self-assessment was not ordinarily presented to the Audit Committee although practice varied across the FE sector. The Committee Chair asked for the document to be circulated to Committee members.

Section 2, Audit, accounting and regularity issues identified at planning stage: Mr Moss proceeded to highlight the key areas of the audit focus in section 2 of the Final Audit Findings Report. The College remained a going concern in Baker Tilly's view. A brief discussion followed about the changing view of the banks in terms of lending to the FE and HE sector.

Valuation of land and buildings: Mr Moss confirmed that disclosures had been adequately included in the financial statements. The Final Audit Findings Report would be amended accordingly.

Acquisition of trade of Trade Training Associates Limited: Mr Moss indicated that a disclosure had been included within the operating and financial review and this should be repeated in the notes to the accounts.

Section 3, Audit, accounting and regularity issues identified during the audit: Mr Moss confirmed that no further issues had arisen during the course of Baker Tilly's audit.

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Section 4, Unadjusted/adjusted misstatements: Adjustments to the financial statements had been made as a result of the usual slight timing difference between the final ILR closeout and the presentation of the financial statements. Regarding unadjusted misstatements related to capital grants, the £36k was not regarded as material, had not been adjusted historically and was the same cumulative amount each year. Adjustments were for £69k in accruals for the NEAMA project and claw back of ASB income of £89k, amounting to a reduction in the surplus of £20k. In response to the Committee Chair's comment that fortunately the amount in claw back had been mostly mitigated by the amount identified in the accruals, the Deputy Principal: Finance & Corporate Development indicated that the contractual value of ASB funding was decreasing each year and there was no reason to consider this presented an increased risk to the College going forward.

Section 5, Potential impropriety issues identified during the audit: Mr Moss confirmed that no potential impropriety issues in internal control had been identified during the audit.

Section 6, Significant deficiencies in internal control: The audit work had identified no significant deficiencies in internal control. The Final Audit Findings Report would be adjusted accordingly prior to the Corporation Board meeting in December.

Section 7, Significant accounting policies, disclosures and estimates: It was noted that there were no matters that the Audit Committee needed to draw to the attention of the Finance & Personnel Committee.

Section 8, Qualitative aspects of accounting practices and financial reporting: The Committee's attention was drawn to the accruals released by College management. In particular, the FRS17 adjustment had been less than provided for (£60k rather than the £100k in the budget and reported in the monthly management accounts). In response to the Committee Chair's comment that half the surplus for the 2013/14 financial year had arisen from the College over-accruing, the Deputy Principal acknowledged that the operating position had not been good last year and that the lagged funding methodology for EFA 16-18 funding had been the reason for the College not going into deficit, as had been reported to Governors.

Appendix A: Independent Auditor's Report on Regularity to the Corporation and the SFA/EFA: There were no issues to report on this matter. The appendix would be updated prior to the Corporation Board.

#### **6.b Statement of Corporate Governance and Internal Control**

The Deputy Principal: Finance & Corporate Development presented the Statement of Corporate Governance and Internal Control which the Audit Committee was required to recommend to the Corporation Board. The statement complied with the wording in the SFA's Accounts Direction. Some minor amendments had been made to the Corporation's committees referred to in the statement and one further amendment regarding Audit Committee membership was identified in the meeting.

**The Committee agreed to recommend the Final Audit Findings Report and the Statement of Corporate Governance and Internal Control to the Corporation Board for approval, subject to the amendments agreed above.**

#### **6.c Draft Financial Statements and Letters of Representation**

**The Committee noted the Draft Financial Statements and Letters of Representation which would be considered by the Finance & Personnel Committee on 4 December.**

The Committee Chair thanked Mr Moss and the firm of Baker Tilly for all the hard work they had undertaken on behalf of TyneMet's Corporation Board with respect to the external audit function and wished Mr Moss and the firm well in the future.

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**7. Proposed Change to Internal Audit Plan 2014/15**

With respect to the work for 2013/14, Mr Thompson reported that KPMG had recently undertaken two internal audit reviews - one of 'Learner Recruitment' and the other of 'Stakeholder Engagement' - and both had gone well. The resultant reports and recommendations would be presented to the next Audit Committee meeting in March.

Mr Thompson indicated that KPMG and the College had been in discussions about a review of the potential development with a locally based agent working on behalf of Libyan oil and gas companies. It was proposed that this review would replace the original one concerning Apprenticeships (see confidential minutes). Mr Thompson and Mr Morgan outlined the ways in which KPMG could draw on the firm's experience to cover a variety of areas, such as those associated with immigration and tax including VAT.

The review would entail some due diligence work conducted by KPMG combined with some monitoring of the College's own work on due diligence. If the Corporation Board agreed, the College and KPMG would first explore an existing checklist of areas that would be worthy of consideration as part of the scoping exercise. The exact number of audit days required would become clear once items from the checklist had been identified, although currently Mr Thompson anticipated a review of four or five days. The Committee felt that the review would be helpful, but stressed the importance of being clear about which areas needed KPMG's assurance as opposed to its judgement about the College's actions.

As KPMG and the College wished to scope this review as soon as possible, it was agreed that the Clerk to the Corporation would contact the Chair of Governors to seek his authorisation under Chair's Action to agree a change to the 2014/15 Internal Audit Plan, with the endorsement of the Corporation being sought formally in December.

In response to Committee members, it was noted that the teaching programme could commence at any point in the academic year, subject to a satisfactory outcome of the due diligence exercise. The Committee asked to be kept informed should there be any significant changes, for example of a political nature, which might affect this potential development.

**The Committee agreed to recommend to the Corporation Board for approval the proposed change to the 2014/15 Internal Audit Plan as outlined above.**

**8. November Updates to Risk Management Plan 2014/15**

Mrs Moore, as Risk Management Champion, presented the November updates to the Risk Management Plan. At this early point in the year, mitigating actions had not been fully implemented and the seven high net operational risks remained unchanged although it was anticipated that two (risks 2.2 and 3.7) were likely to be reduced to medium by the time of the next report.

**The Committee considered the November updates to the 2014/15 Risk Management Plan, an extract of which would be presented to the Corporation Board for information in December.**

*Note: an addition to the high gross low net section of the Risk Management Plan was requested as a result of discussions under confidential item 3.a, Confidential Report.*

**Item taken out of order:**

**10. Committee's 2013/14 Draft Annual Self-Assessment, Including Terms of Reference and Annual Report**

The Committee considered the Committee's draft 2013/14 Annual Self-Assessment and agreed two minor amendments. The Committee's terms of reference reflected the full remit of the Audit Committee.

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Committee members considered the Audit Committee Annual Report: Audit Year 2013/14, noting that the College was, for the first time, required to submit this report to the Skills Funding Agency (SFA). (Previously there had been a requirement to submit the Internal Audit Services' Annual Report.) Mr Thompson concurred with the College's view that this was a sufficiently robust document for submission to the Corporation Board and subsequently to the SFA.

**The Committee agreed to recommend for approval to the Corporation Board the Audit Committee's 2013/14 Annual Self-Assessment with two minor amendments. Further the Committee agreed to recommend the unrestricted sections of the Audit Committee Annual Report: Audit Year 2013/14, noting that the restricted section on Senior Post Holder performance, which was for internal purposes only, would be completed at the end of the meeting.**

*At 10.45 a.m. Mr Thompson, Mr Morgan, and the Deputy Principal: Finance & Corporate Development and the Director of Funding & Planning left the meeting.*

**9. Committee Discussion with External Auditors (confidential/restricted)**

A separate, confidential/restricted minute was taken of this item.

**The Committee thanked Mr Moss for his confidential feedback and for Baker Tilly's work on behalf of the College over the past few years.**

*Mr Moss left the meeting at 10.55 a.m.*

**11. Any Other Business**

None.

**10. Committee's 2013/14 Draft Audit Committee Annual Report continued: - Restricted Section:**

A confidential/restricted minute was taken of the Committee's consideration of the performance of the Principal and two Deputy Principals.

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**12. Assessment of Impact of Committee's Actions**

To inform the Committee's annual assessment of the impact of its decisions, it was noted that the Committee had:

- Requested a firm date for the risk management workshop for dissemination at the December Corporation Board meeting
- Considered the confidential minutes and Confidential Report
- Asked for a copy of the Self-Assessment of Compliance with Regularity and Propriety Requirements to be circulated to Committee members
- Requested amendments to Baker Tilly's Final Audit Findings Report for the Year ended 31 July 2014
- Agreed one further amendment to the Statement of Corporate Governance & Internal Control
- Agreed to recommend the Final Audit Findings Report (Management Report) and the Statement of Corporate Governance and Internal Control to the Corporation Board for approval, subject to amendment
- Agreed to recommend the proposed change to the 2014/15 Internal Audit Plan to the Chair of Governors for approval under Chair's Action prior to endorsement by the Corporation Board
- Agreed to present the 2014/15 Risk Management Plan extract to the Corporation Board for information
- Asked for reference to subcontracting to be inserted in the Risk Management Plan in the high gross / low net section
- Agreed that the Committee's terms of reference were current
- Agreed to recommend the Committee's 2013/14 Annual Self-Assessment with two minor amendments and the Annual Report, including the restricted section to the Corporation Board for approval
- Sought confidential feedback from Mr Moss on how the audit of the financial statements had gone and thanked Baker Tilly through Mr Moss for the firm's work as the College's external auditors over the past five years

**AMC / RMM**

**RMM**

**Baker Tilly AMC / RMM**

**RMM**

**RMM**

**RMM**

**13. Any items to be designated as non-confidential or no longer exempted following this meeting and conversely any items to be designated as exempted/confidential**

- Item 3 and 3.a, Confidential Minutes and Confidential Report
- Item 6, Final Audit Findings Report (Management Report), Letters of Representation to remain confidential. Draft Financial Statements and Statement of Corporate Governance and Internal Control to remain confidential until approved and signed
- Item 8, November Updates to Risk Management Plan 2014/15
- Item 9, Confidential discussion with External Auditors
- Item 10, Restricted section of Audit Committee's Annual Report

The meeting closed at 11.00 am

**Next meeting:** 9.00 a.m. on Tuesday, 3 March 2015