

Present: Mr Colin Seccombe, Chair
Mr Jon Dudgeon

In attendance: Mrs Rosamund Moore, Clerk to the Corporation
Mrs Ann-Marie Crozier, Deputy Principal: Finance & Corporate Development
Mrs Susan Ross, Director of Planning & Performance
Mrs Audrey Kingham, Deputy Principal: Curriculum & Business Development (*from 9.15 to 9.50 a.m.*)
Mr Bernard Garner, Observer pending confirmation of appointment to Committee
Mr Mick Thompson, KPMG (*from 9.10 a.m.*)
Mr James Morgan, KPMG (*from 9.10 a.m.*)
Ms Nicola Wright, PwC (*from 9.10 a.m.*)
Mr Adam Morton, PwC (*from 9.10 a.m.*)

[*The meeting started at 9.03 a.m.*]

The Committee Chair reported that Mr Swan had regrettably taken the decision to resign from TyneMet's Corporation Board following his leave of absence and was therefore no longer a member of the Audit Committee.

Mr Garner had become a TyneMet Governor in February and was welcomed to the meeting as an observer. Pending Board approval on 25 March, he would be joining Audit Committee. Introductions were made.

The Chair highlighted the new governance arrangements, approved in December, and that the Audit Committee would now consider all matters related to the financial statements and recommend them in their entirety to the Corporation Board as a result of the Finance & Personnel Committee being dissolved. The Clerk to the Corporation distributed copies of the revised terms of reference for the Audit Committee. It was also noted that membership of the Committee had increased to five which meant that the Board would need to identify another Governor to join the Committee.

Mr Thompson, Mr Morgan, Ms Wright and Mr Morton joined the meeting at 9.10 a.m.

The Committee Chair explained the position regarding Committee membership and introductions were again made.

1. Apologies for absence
Mrs Alexander had given her apologies.

2. Declarations of interest
None.

3. Minutes and Matters Arising from the Meeting of 27 November 2014

The minutes of the meetings of 27 November 2014 were approved as a true record and duly signed by the Committee Chair.

Under *Matters Arising*, item 3.a, a confidential minute was taken.

The Deputy Principal: Curriculum & Business Development joined the meeting at 9.15 a.m.

Matters Arising, item 7, Proposed Change to Internal Audit Plan 2014/15: For Mr Garner's benefit, the Deputy Principals provided background information about the potential development with a locally based agent working on behalf of Libyan oil and gas companies. It was noted that, for reasons unrelated to TyneMet, the UK Border Agency was taking longer than anticipated to issue the Tier 4 licence which was a requirement.

ACTION

**Agenda
GPS /
Corp.
25
March**

The Deputy Principal: Finance & Corporate Development outlined the proposal which had been approved by the Board on the Audit Committee's recommendation to use KPMG's expertise to assist with the due diligence process. As a result this year's internal audit plan had been duly amended. The scope of the work comprised two elements: KPMG would undertake certain aspects of the work, e.g. related to tax issues, and the College would undertake other aspects of due diligence which KPMG would validate.

In response to the Committee, Mr Thompson confirmed that KPMG had drawn up an overriding checklist to ensure all areas were covered. From there the scope of the work had been agreed, some of which KPMG had started while other aspects of the work would be completed if the development proceeded.

The Deputy Principal: Finance & Corporate Development also reported that she had received helpful feedback via KPMG's London-based legal team last week and was expecting written confirmation of the discussion in due course.

In response to Committee members, the Deputy Principal: Finance & Corporate Development confirmed that there was less pressure with respect to the timeframe for implementing the development and the teaching programme would not commence in this academic year. The College was mindful of the changing political situation in Libya and the agent was aware that the College did not have the required licence. In response to questions, the Deputy Principal: Curriculum & Business Development confirmed that the development had begun as a result of an approach by the agent.

The aim was to provide an update to the Corporation Board on 25 March.

All other actions had been, or were being, taken forward as agreed.

4. Internal Audit Activity Reports

01-15 Learner Recruitment. Mr Morgan presented the internal audit report on Learner Recruitment, commenting that it was quite a challenge for the College to achieve its target numbers. For colleges in general, this area was also quite difficult to get just right from an audit perspective due to the large amount of data required, but the College's processes were sound on the whole and good practice had been identified during the review.

The review had resulted in a 'satisfactory' rating, with one 'medium' and one 'low' recommendation. A discussion followed about the possibilities of utilising EBS more effectively to monitor the progress of applicants through the application process and of enhancing the online application process so that data could be imported into EBS electronically rather than manually. The Director of Planning & Performance indicated that one of the challenges was to ensure that the online forms were not so lengthy as to deter applicants from completing them. The Head of Gateway was working with the Marketing team to further develop the online process while still maintaining data accuracy. One Committee member suggested that such developments could be linked to a cost-benefit-savings analysis and that there might be a commercial opportunity for the College at some point if a suitable product could be developed. In response to the Committee Chair, the Director of Planning & Performance confirmed that the implementation date for recommendations was achievable. KPMG also gave assurance to the Committee that the recommendations were enhancements rather than control weaknesses.

02-15 Stakeholder Engagement. Mr Morgan presented the internal audit report on Stakeholder Engagement which had received a 'good' rating with one 'low' recommendation made. Quite a number of good practice points had been identified. The Deputy Principal: Curriculum & Business Development commented that the review had been useful in helping the College further enhance stakeholder engagement.

The Committee noted the outcome of the internal audit reviews on Learner Recruitment and Stakeholder Engagement.

Mr Thompson observed that KPMG was in line to complete the internal audit programme according to plan. Two further internal audits had taken place in February (Payroll and Risk Management) and these were not giving any cause for concern.

Risk Workshop, 11 March: Regarding next week's Risk Workshop, Mr Thompson confirmed that a response to KPMG's memo had been received from all but six individuals.

The Committee Chair asked if, time permitting, KPMG could draw out of the Senior Leadership Team issues that were causing them concern, but were not within the current internal audit plan.

In response to the Committee Chair's comment about his experience of there being a 'competition' amongst managers for areas to be included in the internal audit plan, the Deputy Principal: Curriculum & Business Development confirmed that the Senior Leadership Team always had a full debate about what areas would benefit most from a review by KPMG. Mr Thompson commented that if the work related to the potential international development did not proceed, the sub-list would be examined.

In response to a Committee member's question, the Deputy Principal: Finance & Corporate Development confirmed that the internal audit plan could be amended in-year as the need arose and that two days were unallocated to support responsiveness. The Clerk to the Corporation explained for Mr Garner's benefit that, although the Audit Committee did not have an executive role (as stipulated in the SFA's Joint Audit Code of Practice), Audit Committee meetings were timed to report into the Corporation Board to allow timely approval for any amendments to the internal audit plan.

The Deputy Principal: Curriculum & Business Development left the meeting at 9.50 a.m.

5. Internal Audit Tracker

The Deputy Principal: Finance & Corporate Development explained the format of the Internal Audit Tracker and associated processes, reinforcing the point that even when the College regarded a recommendation as completed, reference to it was not removed from the tracker until KPMG validated completion in its annual Follow-up Report.

The main body of the tracker related to recommendations that were live. In this report, there were two such recommendations which had been RAG-rated 'green' to show they were completed in the College's estimation.

The Committee noted that both live actions in the Internal Audit Tracker were reported as completed.

6. February Updates to Risk Management Plan 2014/15

Mrs Moore, as Risk Management Champion, presented the February updates to the Risk Management Plan, tabling an update to the report with an extract from the plan to show an amendment since yesterday's Senior Leadership Team meeting. At the mid-year point, given that actions were ongoing, it was still felt to be prudent to keep the level of net risk for five gross sub-risks as 'high'.

The tabled amendment showed that the likelihood of the Adult Skills Budget allocation not being delivered was greater than when last reported and that this meant a slight increase to the level of net risk in this respect. The Committee received assurance that this did not signal a decrease in projected ASB income since the last report to the Board. Underperformance had been reported to the Corporation Board and a change to the structure of the Senior Leadership Team had led to a greater focus by the Director of Planning & Performance (new job title) on monthly monitoring of performance against targets with the curriculum Heads of Department.

It had been anticipated that one gross sub-risk (2.2) might have reduced to 'medium' by the time of this report, however, given the fact that the actions would not be complete until the end of July 2015, it had been felt prudent to keep the risk as 'high' gross.

Two gross sub-risks, previously reported as 'high' net, had been mitigated to 'medium' and the rationale for the mitigation of risk was noted in respect of 3.4. Further, three 'medium' gross sub-risks had been marginally mitigated although they remained 'medium' net.

A gross sub-risk related to the new *Prevent* duty had been added to the Risk Management Plan. The current level of net risk was considered to be 'medium' because the College had yet to learn exactly what the new requirements were. It was anticipated that the actions identified, which were largely related to checking and modifying our existing procedures, would mitigate the risk to 'low' by the end of the academic year.

At the Committee's request, a new 'high gross low net sub-risk' had been added which related to the effective management of subcontractors to safeguard SFA funding. It was noted that robust processes were in place to check the quality of provision delivered by subcontractors and that the College's systems and processes to manage and monitor data were well embedded.

The key concerns highlighted in the report on risk management triangulated with other reports which the Corporation Board had received.

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

7. Report on Disaster Recovery Plan (incl. IT Disaster Recovery Plan)

Mrs Moore, as Risk Management Champion, reported that the Disaster Recovery Plan (incl. IT Disaster Recovery Plan) had undergone a significant review last year, particularly with respect to the College's evacuation procedures. By contrast, this year, the plan had needed only minor amendment and therefore it was recommended that formal re-approval was not required, in keeping with the Corporation Board's move to a strategic governance model. The plan would be reviewed again next year in accordance with the annual cycle.

The Committee noted that the Disaster Team had held its annual disaster scenario meeting on 19 January in order to test the plan. A small number of actions had been identified and good progress was being made to implement them.

The Committee agreed that the Disaster Recovery Plan (incl. IT Disaster Recovery Plan) did not need formal approval but asked for the plan to be presented in full to the meeting next March so that it could be considered and recommended to the Corporation Board.

8. Verbal Update on FRS 102 New Education Statement of Recommended Practice (SORP)

The Committee Chair highlighted TyneMet's new governance arrangements which had come into force since the tender process and which meant that the Audit Committee now dealt with all aspects related to the financial statements and recommended them in their entirety to the Corporation Board. PwC's briefing was therefore very apt.

Ms Wright and Mr Morton provided a briefing on the new Financial Reporting Standard 102 which had been supplemented with a new education Statement of Recommended Practice (SORP) and would impact colleges' statutory accounts for 2015/16. Colleges would need to prepare now as the 2014/15 accounts would be restated in the 2015/16 accounts for comparison. The key areas of change were highlighted (accrued holiday pay, grants and financial instruments) and the Deputy Principal: Finance & Corporate Development commented that the College was already preparing. It was felt that the impact would not be significant, but Committee members agreed it was important to plan carefully and identify as early as possible any impact on the bottom line. It was noted that the Skills Funding Agency expected to have provided guidance on the accounting changes by the time the College produced the financial forecast at the end of July.

Agenda
Corp.
25
March

RMM
Agenda
March
2016

In response to Committee members' questions, the Deputy Principal: Finance & Corporate Development confirmed that she was in discussion with PwC about the potential for some flexibility regarding the revaluation of property and the ramifications for the depreciation charge. The Committee Chair asked for the Audit Committee to be kept informed about this matter.

AMC

The Committee Chair requested a standing agenda item so that the Audit Committee could be kept up-to-date about how the preparations were progressing and what action had been agreed to deal with specific changes to the statutory accounts.

Agenda
RMM
AMC

9. Any Other Business

The Committee Chair commented that the Committee would welcome from either KPMG or PwC information about any seminars or events they were holding which were relevant to the FE sector. The Clerk to the Corporation indicated that any information could be forwarded to her for circulation.

KPMG /
PwC

10. 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:

- Agreed to provide an extract of the February Updates to the Risk Management Plan to the Board for the March meeting
- Accepted that the Disaster Recovery Plan, incl. IT Recovery Plan did not need to go through the formal approval process on this occasion, but that it should be presented to the Committee in full next year
- Asked to be kept informed about potential flexibilities related to the revaluation of property
- Requested a standard agenda item on progress towards fulfilling FRS 102 New Education Statement of Recommended Practice
- Requested information on KPMG's or PwC's seminars and events relevant to the FE sector

RMM

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11. 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 and Restricted Minutes and SFA Letter of 3 February 2015
- Item 6, February Updates to Risk Management Plan 2014/15

The meeting closed at 10.30 a.m.

Next meeting: 9.00 a.m. on Thursday, 18 June 2015