

Present: Mr Colin Seccombe, Chair
Mrs Sheila Alexander

In attendance: Mrs Rosamund Moore, Clerk to the Corporation
Mrs Ann-Marie Crozier, Deputy Principal: Finance & Corporate Development
Mr Andrew Carr, Director of Resources (*until 9.45 am*)
Mr Mick Thompson, KPMG
Mr James Morgan, KPMG
Ms Nicola Wright, PwC
Mr Adam Morton, PwC

[The meeting started at 9.00 a.m.]

1. Apologies for absence

Mr Dudgeon and Mr Garner had given their apologies.

2. Declarations of interest

None.

3. Minutes and Matters Arising from the Meeting of 3 March 2015

The minutes of the meetings of 3 March 2015 were approved as a true record and duly signed by the Committee Chair.

Under *Matters Arising*, the Clerk to the Corporation highlighted the fact that at its meeting on 13 May the Corporation Board had revisited the size of the Committee and reduced the membership to four.

Under *Matters Arising*, item 8, the Committee received an update on the progress the College was making to fulfil the requirements of FRS 102 New Education Statement of Recommended Practice (SORP) which would come into effect next year. The Director of Resources reported that the College was focusing on such areas as accrued holiday pay, the treatment of deferred capital grants and financial instruments. At this point, it was felt to be unlikely that an annual revaluation of buildings would be required to identify the purpose for which they were being used.

In response to Governors' questions about financial instruments, Ms Wright indicated that the College was expected to review its contracts and PwC would sample them to assess if they were of the same view as the College. The Deputy Principal: Finance & Corporate Development commented that some work had already been completed in this regard, with more to be undertaken, however she did not foresee any problems.

It was noted that the College would assess the impact of the changes and the ramifications of decisions about reporting in the financial statements once the Skills Funding Agency had issued guidance. This would cover such areas as financial health and bank covenants. College management felt that any impact was likely to be minimal.

The Committee Chair asked College management to keep the Audit Committee informed on these changes.

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

Items taken out of order:

6. Report on Case of Fraud

A separate, confidential minute was taken of this item.

ACTION

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4. Internal Audit Tracker

In response to Governors' questions, the Deputy Principal: Finance & Corporate Development explained that the development of an in-house system to allow some automation of the online learner application process was quite complex where the course was funded as, for instance, it was a requirement to evidence that the applicant had received Information, Advice and Guidance (IAG).

Responding to a further question, the Deputy Principal indicated that the College had a Document Retention Policy which stipulated how long different types of documentation had to be retained. This was driven by audit or statutory requirements.

Mr Thompson observed that KPMG's follow-up review had started last week and the report would be presented to the Audit Committee in September. He anticipated KPMG concurring with the College's view on implementation of actions.

The Committee noted the updated Internal Audit Tracker.

5 Internal Audit Reports

- a) 03-15 Payroll: Mr Morgan presented the outcome of the review of the College's payroll system. KPMG had performed data analytics to identify potential issues with payments made through the payroll in 20 different areas. The review had resulted in a judgement of 'satisfactory'. KPMG had made one medium and one low recommendation, both of which had been implemented according to the management response. The Deputy Principal: Finance & Corporate Development felt that this had been a useful exercise.

Mr Morgan highlighted the results of the analysis in respect of item t) *Gaps in targets on equal pay for men and women (page 8)*, which showed, at first glance, that men were paid more than women in the College. He stressed that nothing could be read into this result and the report showed that further analysis by the College had revealed that the differences related to pay points within a pay scale. The Deputy Principal explained that pay levels were established by job role, with teaching staff starting on different points of a scale according to qualifications and experience. Regarding administrative roles, the starting point tended to be in accordance with a salary match. In conclusion, there were no issues related to equal pay for men and women at the College.

Ms Wright confirmed that this type of review was helpful for external audit as there was 100% coverage of an audit area. The Director of Resources also felt that this new approach had worked well although 100% coverage meant that every anomaly was flagged. Mr Thompson commented that anomalies would need to be examined and overridden through personal judgement as a matter of routine.

- b) 04-15 Risk Management: Mr Morgan presented the outcome of the review of risk management at the College. This had resulted in a judgement of 'satisfactory' with two medium and two low recommendations made. Several good practice points were highlighted, including the incorporation of the Board assurance map into the Risk Management Plan. This had given KPMG an opportunity to comment on ways of improving the assurance map. In response to Governors' questions, KPMG was of the view that the standing Committees of the Corporation Board could not give assurance as they reported to the Board rather than carrying out a function.

It was noted that the College would consider ways of implementing the recommendations in the next issue of the Risk Management Plan for 2015/16. Mr Thompson observed that risk management was an ever-evolving process and that the College had good risk management processes.

A discussion followed about the risk workshop which had been informed in part by Governors and managers identifying the key risks they felt the College was facing. Mr Thompson explained that some of the responses were subsets of risk already in the Risk Management Plan and so there should be complete coverage. However, it was agreed it would be useful to complete a mapping exercise to verify this.

The Committee Chair raised a point about succession planning for the Board and for the Senior Leadership Team in terms of risk management and also about identifying the extent of action considered appropriate to mitigate risk. In this respect he referred to the fact that the target risk of medium had been exceeded to low in two instances and, as a matter of general principle, it would be worth reflecting on whether more resource than needed had been diverted to mitigate a risk below the agreed target risk.

Governors felt that there was a good correlation between the high net risks identified and other management reports that the Corporation Board received.

Mr Thompson also commented that, from KPMG's perspective, it was clear that both the Board and the Senior Leadership Team were engaged in risk management processes at TyneMet.

The Audit Committee considered and noted the outcomes of the two above internal audit reviews.

The Director of Resources left the meeting at 9.45 am.

7. 2014/15 – 2016/17 Strategic Internal Audit Plan and 2015-16 Annual Internal Audit Plan

Mr Thompson reported that KPMG had produced a draft plan following discussion with College management. The plan had subsequently been considered by the Senior Leadership Team.

It was proposed that four days from the current year would be carried forward resulting in six contingency days in 2015/16 and this would provide flexibility in-year. (Mr Thompson drew attention to an error on page 8 – 2015/16: 6 unallocated days = 39 days not 35.) The four days were as a result of the work on international recruitment being on hold. In response to the Committee Chair asking whether the College was reaching a point when 30 days of internal audit work would be sufficient, the Deputy Principal felt that these days could be taken as an efficiency saving if no further internal audit work was identified.

Despite not using four of the days in 2014/15, Mr Thompson confirmed that KPMG would still be happy to give an opinion in its annual report to the Audit Committee. The Committee Chair reaffirmed the importance placed on the internal auditor's opinion by the Corporation Board and stated that there should continue to be sufficient internal audit work carried out to ensure that the opinion could be given.

Commenting on the work which KPMG had undertaken in 2014/15 on the international proposal, the Committee Chair requested a summary of the work. The Deputy Principal: Finance & Corporate Development reminded the Committee about the initial discussion which had defined the scope of the work as considered by the Committee. This had included the areas KPMG would cover and the aspects of due diligence which the College would undertake and which KPMG would verify.

Governors were reminded about what work had been covered in the three days. KPMG had obtained advice through its legal department in London on technical aspects of an international contract. The Deputy Principal observed that the College was still waiting to hear from the UK Border Agency about the Tier 4 application. Although the Board had decided not to pursue the opportunity in Libya, there were other possibilities in the Middle East of a similar nature and KPMG might need to pick up this activity once again in 2015/16. Mr Morgan indicated that KPMG had also obtained views on the pitfalls of such a venture from their contacts, had completed some research into tax and legal implications and had directed the College to a website for carrying out identity checks.

Mr Thompson confirmed that a paragraph on the work related to the international proposal would be included in KPMG's annual report for 2014/15 as a way of responding to the Committee Chair's request.

KPMG

The Committee Chair asked the internal audit work to address, in one form or another over the next two years, the effectiveness of the College's marketing, especially in relation to commercial work. Mr Thompson indicated that there was potential to accelerate the marketing review with a further follow-up in 2016/17. The Deputy Principal also reminded the Committee that marketing had been woven into other reviews in 2014/15.

Referring back to the discussion of the internal audit review of risk management (item 5.b), Mr Thompson indicated that between now and the next meeting, KPMG would discuss the output of the risk workshop with the Deputy Principal: Finance & Corporate Development to ensure there were no gaps in the internal audit plan. He also commented that succession planning could be built into the review of Corporate Governance in 2015/16.

**KPMG
/ AMC**

Given the above discussions, the Audit Committee agreed to revisit the 2014/15 – 2016/17 Strategic Internal Audit Plan and 2015-16 Annual Internal Audit Plan at the next meeting, with a recommendation made to the Corporation Board in October.

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8. 2014/15 Risk Management Plan – June 2015 Updates

Mrs Moore, as Risk Management Champion, highlighted a revised report which she had emailed those present following final input from the Senior Leadership Team on Monday. In four out of a possible 14 instances (29%) the target net risk had been achieved (two instances) or exceeded (two instances). At the November point, seven gross sub-risks had been regarded as high net compared with only four at the June point.

It was noted that while any gross sub-risks contained in the current Risk Management Plan would be carried forward unless fully mitigated, equally, there might be some further mitigation of risk between the report date and the end of July 2015 and this would be taken into account as usual when the 2015/16 Risk Management Plan was drafted.

The most significant risk for the College remained learner recruitment and income generation as was the case in the previous year.

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

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9. Corporate Risk Register 2015/16

Mrs Moore, as Risk Management Champion, reported that the Senior Leadership Team had considered the proposed Corporate Risk Register for 2015/16 on Monday and was recommending that the corporate risks from 2014/15 be carried forward. This was on the basis that the Board had agreed that the new Strategic Plan would continue to be aligned to the Drivers *Excel, Partner and Grow* and these formed a helpful framework for corporate risk management. Therefore the proposed corporate risks for 2015/16 were:

Risk 01: Failure to achieve excellence

Risk 02: Failure to secure a strong strategic position for the College

Risk 03: Failure to meet funding and learner number targets

There would also be a clear line of sight between the Corporate Risk Register and the College's Strategic Objectives once they were established within the new Strategic Plan. As part of the process, the Corporation Board would need to set a new overarching risk appetite for the College and determine if different levels of risk appetite should be set for particular areas.

The Committee agreed to recommend to the Corporation Board approval of the proposed Corporate Risk Register 2015/16.

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10. External Audit Plan for Year ended 31 July 2015

Ms Wright drew attention to the scope of the external audit, the basis of the opinion on the financial statements, regulatory requirements, non-audit work on grants and returns and changes to the scope of the audit from 2015/16. She also outlined the audit approach which PwC would take which would be risk based (e.g. focusing on manual journals). The Committee noted the figures for 'overall materiality' and for amounts which would fall below the level of materiality to be reported. Discussion followed about the treatment of accruals, valuations, pensions. Management assumptions would be challenged in order to provide the Committee with the necessary assurances. It was confirmed that PwC would liaise with KPMG and that there would be some testing of the finance system.

Mr Norton indicated that, as the audit was risk based, PwC would focus on the areas which they considered to be most likely to lead to a material misstatement. Detail was provided on the four risks PwC had identified.

The plan also provided information about PwC's engagement team, the fees for the work as per PwC's tender proposal, and a statement confirming PwC's independence as the College's external auditor.

It was noted that the Deputy Principal: Finance & Corporate Development would sign the engagement letter with PwC on behalf of the College as was custom and practice.

The Committee considered and noted PwC's External Audit Plan for the Year ended 31 July 2015.

9. Any Other Business

NELEP Local Growth Fund: Mr Thompson enquired about the position regarding the grant which the College had applied to develop the IGNITE Centre for Engineering and Innovation. Mr Thompson had acted as an advocate for the College with the Chair of the NELEP as there was now a very tight timescale for the completion of the construction work at the centre because of the delays. The Deputy Principal: Finance & Corporate Development responded that the College had received a grant offer letter but had had to proceed at risk on 1 June without the actual funding agreement from the North East Combined Authority. The lack of a funding agreement meant that the College could not make any claims at present although said agreement had been promised this week. The Deputy Principal confirmed that the works were on track and therefore the new centre would be operational in September 2015.

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:

- Asked to receive further updates on the progress the College was making to fulfil the requirements of FRS 102 New Education Statement of Recommended Practice (SORP) AC
- Asked to receive the findings of the investigation into the case of fraud once the investigation had been completed AC
- Accepted that KPMG would discuss the output of the risk workshop with the Deputy Principal: Finance & Corporate Development to ensure there were no gaps in the internal audit plan. KPMG/
AMC
- Requested a summary of the three days' work undertaken by KPMG in 2014/15 on the international proposal and agreed this would be included in KPMG's annual report. KPMG
- Agreed to revisit the 2014/15 – 2016/17 Strategic Internal Audit Plan and 2015-16 Annual Internal Audit Plan at the September meeting, with a recommendation made to the Corporation Board in October.
- Agreed to provide an extract of the June Updates to the Risk Management Plan to the Corporation Board at its July meeting
- Agreed to recommend approval of the Corporate Risk Register 2015/16 to the Corporation Board at its July meeting

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, Confidential minute of meeting of 3 March 2015
- Item 6, Report on case of fraud
- Item 8, June updates to Risk Management Plan 2014/15
- Item 9, Corporate Risk Register 2015/16

The meeting closed at 10.45 a.m.

Next meeting: 9.00 a.m. on 17 September 2015.