

- Present: Mr Colin Seccombe, Chair
Mrs Sheila Alexander
Mr Bernard Garner
Dr Adam Langman
- In attendance: Mrs Rosamund Moore, Company Secretary
Mrs Ann-Marie Crozier, Deputy Principal: Finance & Corporate Development (*from 9.12 till 10.56 a.m.*)
Mr Richard Lingwood, PwC (*till 10.40 am*)
Mr Adam Morton, PwC (*till 10.40 am*)
Ms Lisa Smith, RSM Risk Assurance Services LLP (*from 9.12 till 9.22 a.m.*)
Mr Mick Thompson, KPMG (*from 9.12 till 9.40 a.m.*)

[The meeting started at 9.00 a.m.]

- Items taken out of order throughout meeting**
- 3. Committee Discussion with External Auditors**
The Committee Chair welcomed Mr Lingwood and Mr Morton to the meeting and invited them to outline their experience and impressions of the first year of their external audit work.
- A separate, confidential/restricted minute was taken of this item.*
- The Committee considered and noted the feedback on the audit process provided by the External Auditor, PwC, regarding the audit of the financial statements for the period ended 31 July 2015.**
- Mr Thompson of KPMG, Ms Smith of RSM Risk Assurance Services LLP and the Deputy Principal: Finance & Corporate Development joined the meeting at 9.12 am.*
- 5. Funding Audit Opinions and Management Report (RSM UK Audit LLP, formerly Baker Tilly UK Audit LLP)**
The Committee Chair welcomed Ms Smith to the meeting and invited her to comment on the skills funding assurance review which RSM UK Audit had undertaken on behalf of the Skills Funding Agency. Ms Smith wished to record her thanks to the members of the MIS team for their co-operation during the audit which had gone very smoothly. The Deputy Principal: Finance & Corporate Development indicated that she would pass on Ms Smith's thanks.
- A separate, confidential minute was taken of this item.*
- The Committee Chair thanked Ms Smith for attending the meeting and indicated that the recommendations would be taken forward.
- Ms Smith left the meeting at 9.22 am.*
- 1. Apologies for absence**
Mr Morgan of KPMG had given his apologies.
- 2. Declarations of interest**
Deputy Principal: Finance & Corporate Development in restricted section of item 10, Audit Committee Annual Report. It was agreed that the Deputy Principal, KPMG and PwC would not be present for this section.
- Item 11, *Evaluation of Performance*, KPMG and PwC would not be present for this item.

ACTION

AMC

4. Minutes and Matters Arising from the Meetings of 17 September 2015, incl. confidential Minute

The minutes of the meetings of 17 September 2015 were approved as a true record and duly signed by the Committee Chair.

Under *Matters Arising*, item 3, Mr Lingwood was asked to provide a view on the impact of FRS 102 as part of the report on the financial statements, under item 6 of the agenda.

Under item 5, Internal Audit Reports, 06-15 Follow-up of prior year recommendations: Mr Thompson commented that a reference to the action around English and maths should have been included in the report. KPMG had since rechecked this matter and Mr Thompson confirmed that the recommendation had been implemented and therefore the Internal Audit Tracker was correct.

Under item 7, the Deputy Principal: Finance & Corporate Development explained that the scope for the review of Corporate Governance had been dovetailed with the Board's own review of the new strategic governance model. This would add value to the process but would mean that the two unallocated days would need to be used for this purpose. As this crossed over into the work of Governance, Performance & Search Committee, it was confirmed that the Chair of Governors' views on the scope had been sought given that the review of Corporate Governance had been due to commence in November. **The Committee noted the use of the two previously unallocated internal audit days which would be confirmed by the Corporation Board in December.**

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

8. Internal Audit Tracker

The Internal Audit Tracker showed progress against recommendations made as a result of KPMG's internal audit reviews. With the exception of two actions with December 2015 implementation dates, all actions had been completed.

The Committee were pleased to note the good progress made to implement the internal audit recommendations.

9. Proposal regarding Engagement for Subcontractor Controls Assurance

Mr Thompson reported that further discussion had taken place with the Deputy Principal: Finance & Corporate Development about the review of subcontractor controls. Given the relatively low volume of subcontracting work undertaken by the College, he felt that the four internal audit days brought forward from the previous year would be sufficient, provided no issues came to light during the review. On that basis, internal audit rates would apply. KPMG was required to report its findings both to the College and to the Skills Funding Agency and therefore a separate engagement letter was needed.

Discussion followed that a number of fraud and misreporting incidents had occurred in the sector which had caused the SFA to require a detailed review of subcontracting provision. It was likely that this would be an annual requirement.

The Committee agreed to recommend to the Corporation the engagement of KPMG to undertake a review of subcontractor controls using the four internal audit days brought forward from the previous year.

Mr Thompson left the meeting at 9.40 am.

6.a Draft Financial Statements and Letter of Representation and Management Letter for Year Ended 31 July 2015 (PwC)

At the Committee Chair's invitation, the Deputy Principal: Finance & Corporate Development drew attention to the changes in accounting policy which had been discussed at previous Committee meetings and the figures in the financial statements which were not significantly different to the July 2015 management accounts (see reconciliation statement).

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Commenting that this was the first time the Audit Committee had been responsible for the whole of the accounts, the Committee Chair invited Mr Lingwood to present them to the Committee.

Mr Lingwood confirmed that PwC had performed the external audit in accordance with the plan presented to the Committee in June 2015. The majority of the work was complete and PwC would issue its audit opinions following approval of the financial statements and letters of representation by the Corporation on 16 December. He highlighted the key outstanding areas where work had commenced but was not yet finalised: payroll analytic, accounts check, completion procedures.

Mr Lingwood drew attention to the following key reporting matters:

- There were no key judgements which required the Audit Committee's attention
- Three control weaknesses had been identified during the audit (all low priority)
- There were no unadjusted misstatements to report
- There were no issues to report in relation to PwC's use of funds or financial memorandum compliance opinion.

Overall, this was a clean audit with very few material items to note.

Mr Morton highlighted the audit approach as well as the risks which had been identified in PwC's audit plan and had been the subject of detailed work. He explained that the risks around fraud and management override of controls and revenue and expenditure recognition were not specific to TyneMet, but were required audit areas by Auditing Standards. Discussion followed about the risk around pension schemes' actuarial assumptions. It was noted that a full valuation of the pension scheme was due next year. On this subject, the Committee Chair asked PwC to reconsider the wording in the paragraph in the letter of representation referring to actuarial assumptions (page 19) as he felt the statement was too onerous a challenge for the Board. This was especially the case when compared with the language used in relation to the reasonableness of the pension assumptions underlying the pension liability and these being in PwC's view "*within a tolerable range of those expected by our actuarial experts*" (page 8 of the Management Report, *last paragraph on Pension Liability*). Mr Lingwood agreed to reconsider the wording of this bullet point (third bullet under the heading *Retirement benefits*).

RL/PwC

With respect to the risk around revaluation of fixed assets to historic cost, this matter had been considered at previous Audit Committee meetings and the Management Letter covered this in detail.

PwC had reviewed this matter as follows by:

- Considering the reasoning behind the revaluation in order to conclude that historic cost provided a truer and fairer view of the College's position.
- Testing the revaluation calculations by agreeing the position to the 2005 statutory accounts, recalculating the depreciation to be applied between 2005 and 2015 based on the College's depreciation policy and the historic cost of assets
- Assessing the amounts to be released from the revaluation reserve and the most appropriate period over which these amounts should be released.

In response to Governors' questions, it was clarified that it was only possible to take the revaluation back to the start of Tyne Metropolitan College and therefore the 2005 statutory accounts had been used as the starting point for applying depreciation to the historic cost of fixed assets. The Committee Chair referred to the Financial Statements in this regard (Notes to the Accounts, para g) Tangible Fixed Assets, i) Land and buildings). In principle, Governors agreed with the change in accounting policy, but felt that that it would be helpful to elaborate on this matter.

At this point Mr Lingwood indicated that some of the figures had been revised since the papers had been issued to the Audit Committee. As Committee members wished to provide some draft comments on the financial statements to the Deputy Principal: Finance & Corporate, it was agreed that the Committee Chair could authorise minor alterations to the text (changes highlighted for ease of reference for Committee Chair). It was agreed that rather than reissue the financial statements today, the final, amended version should be prepared by Monday, 7 December in time for distribution to the Corporation Board's scheduled meeting of 16 December.

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Mr Morton confirmed PwC's view that the College would operate as a going concern for the foreseeable future.

The Deputy Principal: Finance & Corporate Development responded to questions by Committee members, confirming that Governors had received all information that the auditors had received (e.g. management accounts, budget). She also indicated that the College had prepared for the Comprehensive Spending Review (CSR) by modelling a 27% cut in Adult funding, but that the CSR was less onerous than originally thought.

The Committee considered Appendix 2, Recent accounting developments, FRS 102 and the new SORP which would impact on the financial statements for the year ending 31 July 2016. Specific changes covered: Government grants; Contracts: Employee benefits; and Financial instruments. Mr Lingwood stated that as soon as this year's financial statements had been signed off, PwC would begin preliminary checks in relation to these matters.

PwC

Letter of representation: The Committee Chair queried the first bullet on page 17 under the heading 'Information Provided' which stated: "Each member of the Corporation has taken all the steps that he or she ought to have taken as a trustee in order to make himself or herself aware of any relevant audit information and to establish that you (the Corporation's auditors) are aware of that information." Mr Lingwood explained how Governors complied with this statement, indicating that the Board received assurance on these matters through the normal reporting processes, for example, via the Annual Report of the Audit Committee and the Internal Audit Annual Report and if there were any concerns cited in these reports, the Board would need to be assured that the issues were being addressed.

In response to the Committee Chair, the Deputy Principal: Finance & Corporate Development confirmed that the College had been open and transparent with the external auditor as would be expected.

The Deputy Principal clarified the reference to the Self-Assessment Questionnaire in the paragraph on 'Regularity' (page 18 of the letter of representation), explaining that the completed questionnaire was signed by the Principal and the Chair of Governors for submission to PwC in order to support the regularity opinion, but that the questionnaire was not presented to the Audit Committee. Referring back to earlier discussions, Mr Morton indicated that this was one way in which the Principal did have some interaction with the external auditor.

One Governor queried Appendix 1 (page 21) to the letter of representation which listed related parties not necessarily declared on the Governor register of interests' pro-forma. Mr Morton explained that the external auditor was required to undertake a certain level of work in this regard. The College's register of interests was assessed for completeness and PwC also performed searches with Companies House. It was felt that the register of interests' pro-forma should be amended so that Governors listed all companies they were currently linked with.

RMM

In terms of an overall comment about the Management Letter, the Committee felt that it was in a helpful format, but that some of the colours used in the solid shapes and the text should be amended so that the text was more legible.

PwC

In conclusion, the Committee Chair observed that the Committee was pleased that a debriefing meeting between College management and PwC was planned in order to iron out start-up issues before next year's audit.

**AMC /
PwC**

The Committee agreed to recommend the draft Financial Statements, Letter of Representation and Management Letter to the Corporation Board for approval, subject to the amendments agreed above.

6.b For information: Reconciliation to July 2015 Management Accounts

The Deputy Principal had highlighted this item in the item above.

The Committee noted the reconciliation of the financial statements for the period ended 31 July 2015 to the July 2015 management accounts.

7. November Updates to Risk Management Plan 2015/16

Mrs Moore, as Risk Management Champion, presented the November updates to the Risk Management Plan.

The Committee Chair asked whether the Corporation determining an overall strategic risk appetite of 'medium' had led the College to reduce the number of actions and set more 'medium' target risks. The Deputy Principal: Finance & Corporate Development indicated that the plan had a greater proportion of medium target risks this year than in the past, but that where the actions were about meeting funding conditions/contracts, the target risk was low due to the financial position of the College. Mrs Moore confirmed that all the actions listed within the Risk Management Plan were integral to other College plans and objectives.

The Committee Chair sought further clarification about risk 3.2 *Less than planned growth in Traineeship and Apprenticeship recruitment*. Although it remained high net, it was agreed that the risk was trending down due to the fact that the 16-18 Apprenticeship target had been met. Mrs Moore was asked to indicate this movement on page 4 of the plan which highlighted the four high net risks.

The Committee considered the November updates to the 2015/16 Risk Management Plan, an extract of which would be presented to the Corporation Board for information in December.

Mr Lingwood and Mr Morton left the meeting at 10.40 am.

10. Committee's 2014/15 Draft Annual Self-Assessment, Including Terms of Reference and Annual Report

Governors considered the Committee's draft 2014/15 Annual Self-Assessment, the Committee's revised terms of reference which were in line with the revised Joint Audit Code of Practice issued in August 2015, and the Audit Committee's Annual Report.

The Committee considered the non-restricted section of the Audit Committee Annual Report: Audit Year 2014/15, which the College is required to submit to the Skills Funding Agency (SFA). The Company Secretary indicated that the report would need to be updated with the final wording of PwC's opinions.

The Committee agreed to recommend for approval to the Corporation Board

- **the Audit Committee's 2014/15 Annual Self-Assessment.**
- **the revised Terms of Reference (with one amendment) and**
- **the unrestricted sections of the Audit Committee Annual Report: Audit Year 2014/15 subject to the insertion of the final wording of PwC's opinions**

(The restricted section on Senior Post Holder performance, which was for internal purposes only, was completed at the end of the meeting following the withdrawal of the Deputy Principal: Finance & Corporate Development.)

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11. Evaluation of Performance of Internal Audit Service (KPMG) and External Auditor (PwC)

The Committee considered the performance of the Internal Audit Service (KPMG) and the External Auditor (PwC). A minor amendment to the format of the pro-forma document was agreed.

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

The Committee agreed to recommend the continuation of both the Internal Audit Service (KPMG) and the External Auditor (PwC) in 2015/16.

12. Any Other Business

None.

The Deputy Principal: Finance & Corporate Development left the meeting at 10.56 am.

10. Committee's 2014/15 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.

13. 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:

- Sought confidential feedback from PwC on how the audit of the financial statements had gone
- Considered the confidential SFA Funding Audit Opinions and Management Report
- Noted the proposed extended work on Corporate Governance would be confirmed by the Corporation in December
- Agreed to recommend KPMG's amended proposal regarding *Engagement for Subcontractor Controls Assurance*
- Agreed, subject to final amendment, to recommend the Financial Statements, Letter of Representation and Management Report to the Corporation Board for approval,
- Agreed an amendment to the register of interests' pro-forma to facilitate completeness of the return by Governors
- Agreed to present the 2015/16 Risk Management Plan extract to the Corporation Board for information with one small addition to page 4
- Agreed to recommend the Committee's revised terms of reference to the Corporation Board with one amendment
- Agreed to recommend the Committee's 2014/15 Annual Self-Assessment and the Annual Report, including the restricted section to the Corporation Board for approval with the inclusion of the final wording of the external audit opinions
- Asked the Deputy Principal: Finance & Corporate Development to speak with both KPMG and PwC about opportunities for students and seminars for Governors
- Agreed to recommend the continuation of the Internal Audit Service and External Auditor in 2015/16

14. 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 discussion with External Auditors
- Item 4, Confidential Minutes
- Item 5, SFA Funding Audit Opinions and Management Letter
- Item 6.a, Management Report, Letters of Representation to remain confidential. Draft Financial Statements and Statement of Corporate Governance and Internal Control to remain confidential until approved by the Corporation and signed by all parties
- Item 6.b, Reconciliation to July 2015 Management Accounts
- Item 7, November Updates to Risk Management Plan 2015/16
- Item 10, Restricted section of Audit Committee's Annual Report
- Item 11, Evaluation of Performance of Internal Audit Service and External Auditor

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The meeting closed at 10.59 am

Next meeting: 9.00 a.m. on Tuesday, 1 March 2016