

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  
Mr Andrew Carr, Director of Resources (*from 9.20 to 9.35 am*)  
Mr Richard Lingwood, PwC  
Mr Adam Morton, PwC  
Mr James Morgan, KPMG

[The meeting started at 9.00 a.m.]

**ACTION**

**1. Apologies for absence**

Mr Thompson of KPMG had given his apologies.

**2. Declarations of interest**

None.

**3. Minutes and Matters Arising from the Meetings of 3 December 2015, incl. confidential / restricted Minutes**

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

*Under Matters Arising, item 6.a, draft Financial Statements, Letter of Representation and Management Letter for Year ended 31 July 2016, the Deputy Principal: Finance & Corporate Development confirmed that the debriefing meeting between the College and PwC had been very helpful for both parties from the perspective of planning for next year's audit. There would be two interim visits and Financial Reporting Standard (FRS) FRS 102 requirements would be covered off at an early stage.*

*Under item 11, Evaluation of Performance of Internal Audit Service (KPMG) and External Auditor (PwC): The Committee reminded KPMG and PwC representatives that they were keen to hear about any seminars that might be suitable for either Committee members or members of staff, particularly ones in Newcastle.*

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

**4. Progress Update on FRS102 (standing item)**

The Deputy Principal expressed her appreciation for PwC's input regarding her update on Financial Reporting Standard (FRS) 102. The report provided the Committee with information about the impact of implementing the new reporting standard for the year ended 31 July 2016. The Committee was reminded that the introduction of FRS 102 and the new SORP (Statement of Recommended Practice) 2015 would mean a significant change to the presentation of the College accounts and would require the 2014/15 balances to be restated.

PwC had highlighted the key changes in accounting policy impacting TyneMet in its External Audit Management Letter for the year ended 31 July 2015. Initial discussions with PwC had taken place and an implementation plan agreed and PwC would undertake some specific testing during the interim visits. It was unlikely that the changes would cause the College issues and also unlikely that the College would change existing accounting policies. It was confirmed that the Committee would consider accounting policies at the next meeting.

The new format for the financial statements for the year ended 31 July 2016 would follow the so-called 'Casterbridge' model which was the sector pro-forma and was due to be published imminently.

Responding to Governors' questions, the Deputy Principal indicated that, in terms of the financial instruments, leases had already been a specific focus and the Director of Resources was in the process of checking the remaining ones.

**Governors considered and noted the report, including the steps to be taken to manage the transition to the requirements of FRS 102, which would entail the Committee agreeing the revised accounting policies and opening balance sheet adjustments at the next meeting in June.**

*The Director of Resources joined the meeting at 9.20 am.*

#### **5. External Audit Tracker**

The three recommendations regarding internal controls within the External Audit Tracker had been completed and Mr Lingwood indicated that PwC would check that all actions had been fully implemented as part of the firm's interim external audit work.

**The Audit Committee considered and noted the completed External Audit Tracker.**

#### **6. Internal Audit Activity Reports**

##### **6.a 01-16 Journals**

Mr Morgan presented the report on Journals which had received a 'good' rating. A data-based approach had been taken to analyse journal transactions in 14 different areas and only minor control points had been found. In response to a Governor's question, it was confirmed that journals were kept for tax and audit purposes for seven years. The Director of Resources commented that the findings were as expected and that the review had been helpful to the operation of the Finance department. The Deputy Principal also observed that the findings matched those of PwC (i.e. in the Management Letter) which was very reassuring.

In response to a question about the number of manual postings, the Director of Resources indicated that these did not pose a problem. The number could not be reduced as this would involve considerable investment in the finance system. Nevertheless, the College did consider how to bring about improvements and, for instance, had built in additional modules into the finance system at the last review point.

The Committee also felt that this type of report was helpful and Mr Morgan indicated that the Audit Committee could expect to see other reports in this format where large amounts of data were being processed, e.g. payroll and purchasing. Mr Lingwood confirmed that PwC would continue to test journal transactions as the external audit was risk-based and management override was always a risk in this area.

*The Director of Resources left the meeting at 9.35 am.*

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## 6.b 02-16 Staff Recruitment, Retention and Capability

Mr Morgan highlighted the fact that the report on Staff Recruitment, Retention and Capability had received a 'satisfactory' rating. Three medium recommendations had been made, one of which had been completed and two of which were due for completion by May.

Discussion followed regarding pre-employment checks. The audit issue was largely due to the documentation not being printed at the point the checks were completed and was not about a failure to complete the checks. The Deputy Principal confirmed that pre-employment checks were very high profile as this was a safeguarding matter.

Succession planning needed to be developed and consideration of this was currently underway, although the Deputy Principal highlighted the fact that this matter routinely appeared in departmental annual risk assessments (part of self-assessment process) and various strategies were used to mitigate the risk. Governors felt it was important that all the key business contacts did not reside with one individual and noted that in May the Corporation Board would be asked to approve an HR Strategy which would include succession planning.

With respect to appraisals (PDRs), the Deputy Principal explained that in most cases meetings had taken place between the line manager and their members of staff, but the paperwork was not always forwarded to the HR department. Governors felt that the appraisal system was vitally important for the development and culture of an organisation as well as for the purpose of succession planning and that this should be a performance issue for senior managers. One Governor queried the 'satisfactory' rating for this review as it was a core system. For the next meeting, Governors requested the rating given to this area at the previous review together with explanations from the HR department in order for Governors to understand if and how systems had improved or deteriorated. It was felt that the introduction of an HR strategy could be used as an opportunity for the PDR process to regain credibility.

In response to the Committee Chair, Mr Morgan confirmed that the implementation of recommendations from this review would be part of the follow-up work taking place in June.

## 6.c Subcontracting Arrangements (incl. Subcontracting Controls Certificate)

KPMG had undertaken a review of the College's subcontracting arrangements in accordance with the requirements of the Skills Funding Agency and made only two low recommendations. The certificate, which was in a prescribed format, had been submitted on time to the SFA before the end of January. It was noted that the College did not have a high volume of subcontracting. The Deputy Principal commented that there was a *de minimis* threshold which triggered this type of review and it was likely that the College would be below this threshold next year unless the funding rules changed.

**Governors considered and noted the three internal audit activity reports presented.**

## 7. Internal Audit Tracker

The Internal Audit Tracker showed progress against recommendations from KPMG's internal audit reviews. One action with a December deadline had been completed and one action related to English and maths was partially completed with full implementation expected by June 2016. The June completion date was because the College had to constantly monitor ongoing student enrolments with regard to the condition of funding rules and therefore this was not a sign that the implementation deadline was slipping.

**The Committee noted the progress made to implement the internal audit recommendations.**

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**8. Funding Audit Tracker**

The Funding Audit Tracker was presented for the Audit Committee's consideration. In response to a question by one Governor, the Deputy Principal explained that this was an internally tracked document and not subject to external review. Nevertheless, KPMG would be undertaking an audit of funding body income and there was some cross-over between the two audits.

**The Committee considered and noted progress to implement actions in the Funding Audit Tracker.**

**9. February Updates to the Risk Management Plan 2015/16 (confidential)**

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

A separate, confidential minute was taken of this item.

**The Committee considered the February updates to the 2015/16 Risk Management Plan, requested two amendments and noted that an extract would be presented to the Corporation Board for information in March.**

**10. Any Other Business**

*A separate, confidential minute was taken of an item of Any Other Business.*

**11. 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 information about local seminars being delivered by KPMG and PwC
- Requested the rating for the previous internal audit report on HR systems with commentary to explain how/if systems had improved or deteriorated
- Requested two amendments to the Risk Management Plan to reflect increases in high net risk for gross sub-risks 3.3 and 3.5.
- Felt it was important to have discussion on how best to engage with the Council's Regeneration Team at the Governor Strategic Planning & Development event on 9 March

**12. 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**

To remain confidential:

- Item 3, Confidential Minutes
- Item 9, February Updates to Risk Management Plan 2015/16

The meeting closed at 10.15 am.

**Next meeting:** 9.00 a.m. on Thursday, 16 June 2016

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