Minutes of the Meeting of the Audit Committee of Tyne Metropolitan College held at 9.00 a.m. on Thursday, 23 June 2016 in the Board Room, Coast Road Campus

Present:	Mrs Sheila Alexander, Vice Chair Mr Bernard Garner Dr Adam Langman
In attendance:	Mrs Rosamund Moore, Company Secretary Mrs Ann-Marie Crozier, Deputy Principal: Finance & Corporate Development Mrs Pamela Robertson, Director of Learning Development (*from 9.38 to 9.41am*) Mr Richard Lingwood, PwC (*from 9.10 am*) Mr Thompson, KPMG (*from 9.10 am*) Mr James Morgan, KPMG (*from 9.10 am*)

[*The meeting started at 9.10 am*]

ACTION

1. Apologies for absence
Mr Seccombe, Committee Chair, and Mr Adam Morton of PwC had given their apologies.

2. Declarations of interest
None.

3. Minutes and Matters Arising from the Meetings of 1 March 2016, incl. confidential Minutes

The minutes of the meetings of 1 March 2016 were approved as a true record and duly signed by the Committee Vice Chair.

Under *Matters Arising*, *item 4, Progress Update on FRS102:* It was noted that the Deputy Principal: Finance & Corporate Development had provided a written update. Mr Lingwood indicated that he would cover FRS102 verbally as part of the External Audit Plan under item 11 of the agenda.

Under item 6.b, 02-16 Staff Recruitment, Retention and Capability: The Deputy Principal: Finance & Corporate Development indicated that the HR Strategy would be presented to the July Corporation Board meeting for approval. The recommendation regarding follow-up in respect of performance, development and review documentation had been implemented and was having a positive impact on the number of PDR returns to HR.

Under item 6.c, Subcontracting Arrangements: In response to a Governor's question, it was noted that the College had fallen below the threshold for triggering a review of subcontracting arrangements.

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

4. Progress Update on Accounting Policies related to FRS102 (standing item)
The Deputy Principal: Finance & Corporate Development reminded those present that the key changes and decisions required in order to comply with the new reporting standard, FRS102, had been outlined at the March Committee meeting. She reported that an implementation plan had been agreed with external auditors, PwC, about how the changes would be signed off from an audit perspective, including any restatement of the College's balance sheet as at 31 July 2015 ("opening balance sheet"). The corresponding audit fieldwork had been undertaken during May half-term and had incorporated interim substantive testing to support the year-end audit.

In terms of accounting adjustments, the Deputy Principal drew attention to the proposal to continue with the Accruals method of accounting for government capital grants. This policy entailed income from capital grants being deferred (i.e. spread) over the life of the associated fixed asset purchased by the grant. A grant was therefore released to income as an offset to depreciation charges. It was noted that the option to continue with this policy might be removed in future, pending a review of FRS102. The alternative Performance model, where the total grant was recognised as income when received, might become a requirement in future. Mr Lingwood confirmed that PwC concurred with this accounting policy remaining in place. In response to a Governor's question regarding government capital grants, the Deputy Principal confirmed that there could potentially be claw back, but she knew of no actual such case to date.

With respect to employee benefits, work was underway on modelling an accrual for holiday pay at the balance sheet date, estimated to be £80k. Although there was ongoing debate within the FE sector about how accrual for holidays should be calculated and whether this was necessary, PwC had confirmed since the report was distributed that this was required.

Mr Lingwood indicated that PwC would confirm the figure of £80k during their audit work. A figure of £80k was not material and so would not affect PwC's audit opinion. It would simply be identified in the Management Letter as an 'unadjusted misstatement'. A discussion followed about the rationale for accruing for holiday pay and the extreme unlikelihood of the accrual every having to be paid out.

In response to questions, the Deputy Principal confirmed that the College fully adopted the model pro-forma for the statutory accounts and that PwC would check that the College was complying with all disclosure requirements.

The Committee considered and agreed the following:

- **continuation of the Accruals method of accounting for Government Capital Grants;**
- **that a general holiday pay accrual would occur (amount to be verified by PwC and likely to be an 'unadjusted misstatement'); and**
- **to adopt financial statements disclosure as modelled in the Casterbridge pro-forma issued by the Skills Funding Agency.**

5. Internal Audit Tracker

The Deputy Principal: Finance & Corporate Development drew attention to the table of implemented recommendations which would only be removed once KPMG had completed their internal audit follow-up work. Two actions were ongoing, one related to the financial regulations which were due for completion in September and the other around succession planning which would be incorporated into the College's new HR Strategy which was due for Board approval in July.

Governors were pleased that managers were making good progress to complete Internal Audit recommendations.

6. Funding Audit Tracker

The Deputy Principal reminded Governors that the College had been in the SFA funding audit sample last year and that this had resulted in a number of actions which had formed the basis of the Funding Audit Tracker. She highlighted the two actions that were still to be completed, one around recording learning aim achievements which was on track for completion in September, and the other related to the contract for subcontractors. The Deputy Principal indicated that the College would not be entering into new SFA subcontracting arrangements in 2016/17, but there would be a continuation subcontract pertaining to five learners from Lomax. This would be an item for Board approval on 6 July. **Agenda Corp. 6 July**

In response to one Governor's question, the Deputy Principal confirmed that the Funding Audit Tracker was not reviewed by the funding auditor and it was simply for the Audit Committee to monitor and sign off.

The Audit Committee considered and noted the updated Funding Audit Tracker.

7. Internal Audit Activity Reports

7.a 03-16 Corporate Governance

Mr Morgan presented the three elements to the report on Corporate Governance which had compared TyneMet Board's governance arrangements with those of other colleges, had provided pointers in terms of how Governors might self-assess their performance, and had reviewed the way in which the Board had evaluated its new strategic governance model. While the first two reports were advisory in nature, the review work had resulted in a 'good' judgement in the final report of 29 March 2016 (Internal Audit Report 03-16 – *Corporate Governance*). It was noted that this internal audit work had supported the Board's decision to retain the strategic governance model and the Company Secretary indicated that areas not already covered in the annual governance questionnaire would be added.

The Director of Learning Development joined the meeting at 9.38 am.

7.b 04-16 General IT Controls

The Director of Learning Development was welcomed to the meeting. The Committee noted that two low priority recommendations had been made and the Director of Learning Development indicated that the two actions had been implemented. Mr Morgan drew attention to the scope of the audit and that the overall judgement for General IT Controls was 'good'.

The Director of Learning Development left the meeting at 9.41 am.

7.c 05-16 Tendering, Ordering, Receipts and Payments

Mr Morgan presented the report to the Committee members who noted that three low priority recommendations had been made. This had resulted in an overall judgement for this review of 'good'.

A discussion followed about the action around budget holder declarations and whether this was absolutely necessary. Mr Thompson commented that controls at the College were good and well managed and this recommendation was adding another layer of awareness for managers and strengthening accountability. An alternative approach was discussed whereby budget holders' attention would be drawn to the relevant paragraph in the financial regulations about 'related parties' when they provided a signature on the budget holders' signature list for the Finance department on an annual basis. Mr Thompson felt this was an acceptable mid-way ground should the College decide to go down this avenue.

Mr Thompson commented that this year's internal audit reports demonstrated good controls overall which supported the College going forward.

Governors considered the three internal audit activity reports presented, and were pleased to note that all three had received a 'good' judgement, the best possible for internal audit reviews.

8. 2014-15 to 2016-17 Strategic Internal Audit Plan and 2016-17 Annual Internal Audit Plan (KPMG)

Mr Thompson drew attention to the Internal Audit Strategic Plan which covered a three-year period from 2014/15. He reminded Governors that unallocated days from 2014/15 and 2015/16 had been used for the reviews of international ventures, subcontracting and corporate governance. In total there were 35 internal audit days within the 2016/17 plan (i.e. the agreed average), with two days unallocated in order to provide flexibility. In response to Governors' questions, Mr Thompson reaffirmed that subcontracting was not within the plan as the amount of subcontracting by the College had fallen below the threshold to trigger such an audit.

	Responding to a question about whether the number of days proposed for curriculum planning (four) was too low, both KPMG and the Deputy Principal: Finance & Corporate Development confirmed that this was sufficient as KPMG would use curriculum specialists for this review. The five days for financial forecasting and budgetary control was also felt to be an appropriate number, given that this was a large area and that the forthcoming Area Review could potentially result in more work being required.	
	Mr Thompson reassured the Committee that KPMG would use internal audit days flexibly and productively.	
	In terms of the timing of the review of financial forecasting and budgetary control, it was agreed that this could be brought forward to November 2016, with the review of marketing moving to February 2017. This would be helpful due to management changes in marketing.	**KPMG**
	It was agreed that KPMG would reword the text in paragraph one on page 8 of the draft internal audit strategic plan, inserting a reference made to the outcome of Area Review.	**KPMG**
	In response to a question about whether the internal audit strategic plan should only focus on areas with a net risk of 6 or more or whether KPMG should give more attention to low net risk areas, Mr Morgan explained that low net areas were reviewed from time to time (e.g. health and safety), but just not as frequently as higher net risk areas due to the fact that the risk was sufficiently mitigated through embedded internal controls.	
	The Committee considered and agreed to recommend for Corporation approval the 2014-15 to 2016-17 Strategic Internal Audit Plan and 2016-17 Annual Internal Audit Plan, subject to the above amendments agreed by the Audit Committee.	**Agenda Corp. 6 July**
9.	**June Updates to the Risk Management Plan 2015/16** Mrs Moore, as Risk Management Champion, presented the June updates to the Risk Management Plan which the Senior Leadership Team, as the College's Risk Management Group, had considered.	
	No new gross sub-risks had been added in this reporting period.	
	In five out of 15 instances (33%) the target net risk had been achieved. At the November point, four gross sub-risks had been regarded as high net compared with three at the June point. Gross sub-risk 2.1 around the College being recommended to merge with another partner had been mitigated to medium, i.e. the target risk, due to the College positioning itself and proactively engaging with South Tyneside College ahead of the North East Area Review.	
	It was noted that there might be some further mitigation of risk between the report date and the end of July 2016 which would be taken into account as usual when the 2016/17 Risk Management Plan was drafted and any gross sub-risks contained in the current Risk Management Plan would be carried forward unless fully mitigated. Account would be taken of any relevant comments in the Ofsted inspection report which would be published shortly.	**Agenda 15 Sept.** **RMM**
	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 2015/16 Risk Management Plan, noting that progress was being made to mitigate risk and that the usual extract would be presented to the Corporation Board for information in July.	**Agenda Corp. 6 July**

10. Corporate Risk Register 2016/17

Mrs Moore, as Risk Management Champion, reported that the Senior Leadership Team had considered the proposed Corporate Risk Register for 2016/17 and was recommending that the corporate risks from 2015/16 should be carried forward. This was on the basis that the new Strategic Plan with its Aims: *Excel and Grow* and its Enabler*: Partner* formed a helpful framework for corporate risk management. Therefore the proposed corporate risks for 2016/17 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 continue to be a clear line of sight between the Corporate Risk Register and the College's Strategic Objectives, as well as to the three strands of the Vision. In terms of the Vision, 'Excellence' mapped to Corporate risk 01, 'Partnership' mapped to Corporate risk 02, and 'Growth' 'STEM' and 'Resilience' mapped to Corporate risk 03. **RMM**

The report highlighted that the Corporation Board had set an overarching risk appetite for the College of medium within the lifetime of the three-year Strategic Plan.

The Committee agreed to recommend for Corporation Board approval the Corporate Risk Register 2016/17. **Agenda Corp. 6 July**

11. External Audit Plan for Year ended 31 July 2016 (PwC)

Mr Lingwood presented the External Audit Plan 2015/16 to the Audit Committee, highlighting salient points from each section of the plan. The framework for the audit would be the same as last year, with audit opinions provided on the financial statements and in terms of regularity. Mr Lingwood confirmed that both Mr Morton and he would be part of the engagement team, thereby providing continuity. He reported that PwC had changed the timing of some of their work as requested, in that PwC had reviewed the Income and Expenditure account for the ten-month period to the end of May. Regarding FRS102, PwC would review the College's analysis of holiday accruals to ensure they were in agreement with this as previously stated. PwC would also review contracts and leases of the College. Mr Lingwood felt that this early work was helping to make the external audit more efficient.

In response to a question by the Vice Chair, Mr Lingwood indicated that there was not a formal report for the today's Committee meeting on the interim audit work, but that there were no issues to report to the Audit Committee based on PwC's work to date. The Deputy Principal concurred that the substantive testing was as expected and correlated with the internal audit report regarding the purchase ledger (Internal Audit report 05-16 Tendering ordering receipt and payments).

Relevant risks: Mr Lingwood highlighted the key risks which could have a material impact on financial reporting. These were: risk of management override of controls, risk of misstatement in revenue recognition, going concern, pensions' liability and transition to FRS102. These risks were set out in detail in the plan and were expected features of external audits.

PwC's work for 2015/16 would include specific procedures to test the transition between the old and new Statement of Recommended Practice (SORP) for the education sector based on FRS102.

Intelligence scoping: In respect of materiality, the proposed threshold was again £315,760 as in 20141/5.

Risk of fraud: Regarding the risk of fraud, the plan set out the different responsibilities of the auditors, management and the Audit Committee. The Deputy Principal reminded Governors that any matters related to fraud were always fully reported.

Audit timetable and communications: Responding to the Vice Chair's comment about ensuring tight communication between the audit team and the College, Mr Lingwood observed that PwC was ahead in their work compared with the previous year and smooth communication would be achieved through continued, regular dialogue with management. It was noted that part of the reason for PwC not providing a written report for the meeting was that the interim audit had taken place later than planned.

Audit fee: Mr Lingwood drew attention to PwC's audit fee for 2015/16 whereby PwC was proposing a non-recurring fee related to FRS102 conversion of £2,000 (set out on page 20 of the plan). While accepting the fee increase, the Committee expressed disappointment that this additional fee had not been flagged earlier with Governors and management, especially given that FRS102 had been discussed during the audit tender process and the Committee had recommended the contract to the Corporation Board at a specific fee. Mr Lingwood acknowledged this and gave his apologies.

Appendix A - Independence threats and safeguards: A discussion followed regarding related party conflicts of interest and it was agreed that there were safeguards in place in respect of Governors, for instance as 'Declaration of Interests' was an item on each agenda.

The Committee considered and noted the External Audit Plan and agreed to recommend for Corporation Board approval the increased fee set out on page 20 of PwC's External Audit Plan 2015/16 which included a non-recurring fee for FRS102 conversion of £2,000. **Agenda Corp. 6 July**

12. Anti-Fraud Policy, issue 4 and Fraud Response Plan, issue 4

The Deputy Principal: Finance & Corporate Development highlighted the updated Anti-Fraud Policy and Fraud Response Plan which had been cross-checked against the Joint Audit Code of Practice and refreshed in line with the College's business cycle. She indicated that there had been no major changes to either document. She reported that the policy had been used in one instance (as reported to Governors) and had been fit for purpose.

The Committee agreed to recommend for Corporation Board approval the updated Anti-Fraud Policy, issue 4 and Fraud Response Plan, issue 4. **Agenda Corp. 6 July**

13. Any Other Business

None.

14. 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 the following accounting policies related to FRS102 for the financial statements 2015/16:
  - the continuation of the Accruals method of accounting for Government Capital Grants;
  - that a general holiday pay accrual would occur (amount to be verified by PwC and likely to be an 'unadjusted misstatement'); and
  - to adopt financial statements disclosure as modelled in the Casterbridge pro-forma issued by the Skills Funding Agency.
- expressed their pleasure at management's progress to implement internal audit recommendations.
- expressed their satisfaction at the outcome of the three internal audit reviews reported.
- agreed to recommend for Corporation approval the 2014-15 to 2016-17 Strategic Internal Audit Plan and 2016-17 Annual Internal Audit Plan, subject to the amendments agreed by the Audit Committee.
- felt good progress was being made regarding the Risk Management Plan.
- agreed to recommend for Corporation Board approval the Corporate Risk Register 2016/17.
- agreed to recommend for Corporation Board approval the increased fee set out on page 20 of PwC's External Audit Plan 2015/16 which included a non-recurring fee for FRS102 conversion of £2,000.
- agreed to recommend for Corporation Board approval the updated Anti-Fraud Policy, issue 4 and Fraud Response Plan, issue 4.

15. 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, June Updates to Risk Management Plan 2015/16
- Item 10, Corporate Risk Register 2016/17

The meeting closed at 10.35 am.

Next meeting: 9.00 am on Thursday, 15 September 2016