

- Present: Mr Colin Seccombe, Chair  
Mrs Sarah Bartlett (*till 10.42 am*)  
Mr Bernard Garner  
Dr Adam Langman
- In attendance: Mrs Rosamund Moore, Company Secretary  
Mrs Ann-Marie Crozier, Deputy Principal: Finance & Corporate Development (*from 9.20 till 10.55 a.m.*)  
Mr Richard Lingwood, PwC (*till 10.30 am*)  
Mr Adam Morton, PwC (*till 10.30 am*)  
Mr Mick Thompson, KPMG (*from 9.20 till 10.30 a.m.*)

[The meeting started at 9.00 a.m.]

**ACTION**

- 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 second 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 external audit process provided by PwC on the audit of the financial statements for the period ended 31 July 2016.**
- Mr Thompson of KPMG and the Deputy Principal: Finance & Corporate Development joined the meeting at 9.20 am.*
- 1. Apologies for absence**  
Apologies were received from Mr James Morgan of KPMG.
- 2. Declarations of interest**  
Deputy Principal: Finance & Corporate Development in restricted section of item 10, Audit Committee Annual Report. It was agreed that Mrs Bartlett (Staff Governor), the Deputy Principal, KPMG and PwC representatives would not be present for this section.
- Item 11, *Evaluation of Performance*, KPMG and PwC representatives would not be present for this item.
- 4. Minutes and Matters Arising from the Meetings of 15 September 2016**
- The minutes of the meetings of 15 September 2016 were approved as a true record and duly signed by the Committee Chair.**
- All agreed actions had been taken forward and therefore there were no *Matters Arising*.
- 5.a Draft Financial Statements and Letter of Representation and Management Letter for Year Ended 31 July 2016 (PwC)**  
Updated financial statements were tabled for the Audit Committee's consideration. The Deputy Principal: Finance & Corporate Development highlighted the fact that the financial statements were in the FRS 102 format and so looked different to what Governors had received in prior years. The most significant adjustment related to the pensions. In terms of the operating position, nothing had arisen during the audit to change this. The audit process was not quite complete as the financial statements were subject to a technical review and a going concern cash-flow review. Mr Lingwood confirmed this was the case.

In response to the Committee Chair, Mr Morton indicated that the audit examined TyneMet's position as a standalone entity and the proposed merger did not have any bearing on the audit. The Deputy Principal confirmed that the College was still producing a 12-month rolling cash-flow.

Mr Lingwood confirmed that the £19k audit adjustment had no impact on the College's result. Following on from this comment, it was noted that the heading in Appendix 1 should read: "*Summary of uncorrected misstatements*" and not "*Summary of corrected misstatements*". In response to one Governor's question, Mr Lingwood clarified that PwC had reported the misstatement as it was above the de minimis threshold agreed with the Audit Committee but was not a material figure. The Committee therefore indicated that PwC should consider rewording the paragraph to make it clear that there would not be an adjustment (page 1 of the Management Report).

PwC

The Committee also asked for a correction to be made to the paragraph on 'Control Recommendations' to reflect the fact that there was only one control deficiency. Mr Morton explained that this was a typographical error and that there had originally been two control recommendations, however management had presented additional information and so it had been removed.

PwC

The Deputy Principal: Finance & Corporate Development confirmed that all the facts related to the control recommendation were within the Management Report (page 5). In response to Governors' questions, she also confirmed that the current payroll cover was satisfactory. Mr Thompson also confirmed that this report reinforced KPMG's view of the robust nature of the College's internal controls.

Mr Lingwood confirmed that PwC had performed the external audit in accordance with the plan presented to the Committee in June 2016 and highlighted the audit risks identified at that time. The risks which had been tested were:

- *Fraud and management override of controls* – discussed above
- *Revenue recognition* – no issues identified
- *Going concern* – work ongoing on the College's monthly cash flow forecast
- *Pensions liability* – work ongoing to verify the balance of the pension asset value

*Going concern:* It was explained that this was tested due to the College's forecast net liabilities position and deficit result for the year ended 31 July 2016. Having received the cash flow forecast, PwC would be able to complete this piece of work. The Deputy Principal reminded Governors about the trend reported in the management accounts which showed a dip in the spring. She assured Governors that the increased overdraft facility with Barclays provided a sufficient cushion to allow the College to meet its liabilities. Mr Morton drew Governors' attention to the detail on this matter on page 10 of the Management Report. PwC had concluded that management's assertions about being a going concern and the underpinning forecasts were not unreasonable. In response to the Committee Chair's question about concluding this piece of work, Mr Lingwood fully anticipated PwC being able to confirm that the College was a going concern as the College's revenue and expenditure were very predictable. Responding to Governors' questions, the Deputy Principal also confirmed that the College could access the overdraft facility at any time and that it was an appropriate amount. She explained the rationale for the request to increase the facility and that this request had not triggered a credit review by Barclays.

*Pensions liability:* Mr Morton reported that this was an elevated risk in that the College had to rely on estimates provided by the College's actuary. PwC had considered the assumptions applied by actuaries in their valuation of the pension scheme and whether these were consistent with industry norms. PwC had found that none of the actuarial assumptions applied fell outside the expected range (5% either way). The Deputy Principal explained that the College had to accept its share of the LGPS pension deficit.

Mr Morton drew attention to the further detail provided in section 4, *Other reporting matters*. Governors asked for clarification from PwC on the paragraph which referred to gilts on page 9 of the Management Report and asked PwC to revisit this paragraph to ensure it read correctly. PwC representatives confirmed that the substantive work on pensions liability was complete and the technical review was all that was now required.

PwC

*Adoption of FRS 102:* Mr Morton explained that the adoption of FRS 102 and changes to the Casterbridge model, which colleges were required to use, had resulted in largely presentational changes to the Financial Statements. As reported above, the main issue related to the pensions liability. Mr Morton reiterated that the Financial Statements needed a detailed technical review which PwC would complete by the end of the week.

PwC

*Significant accounting principles and policies:* The Committee Chair commented that the Audit Committee received important reassurance from PwC's report that stated:

*"We are required to report to you our view on qualitative aspects of the College's accounting practices and financial reporting. There are no such areas that we wish to draw to your attention.*

*The accounting policies used to prepare the College's financial statements were appropriate and were in accordance with the State of Recommended Practice (SORP) 'Accounting for Further and Higher Education' (2015)."*

It was noted that PwC had completed the regularity audit and no issues had arisen.

*Letter of Representation:* Mr Lingwood explained that the Letter of Representation set out in Appendix 2 was the generic letter used for FE colleges. The Committee Chair queried the relevance of the reference to 'controlled foreign companies legislation' in the paragraph on taxation on page 16 of the Letter of Representation.

PwC

It was noted that PwC had yet to complete its work in relation to the related parties' disclosure and would separately communicate any issues arising from this work. The Company Secretary confirmed that all Governors had completed a register of interests form in July 2016. Dr Langman indicated that he had dissolved a number of the companies which appeared under '*Related parties and related party transactions appendix*' on page 18 of the Letter of Representation and would provide an update to PwC via the Company Secretary.

AL /  
RMM

The external audit fee analysis was set out in the paragraph on '*Fees*' on page 20 of the Management Report. Under '*One-off / non-recurring fees*' the Audit Committee was asked to consider a proposed variation in respect of the annual teachers pensions return amounting to £750. The Deputy Principal: Finance & Corporate Development referred to the internal control point outlined earlier in the meeting and confirmed that she and Mr Morton had agreed that the College and PwC should share the additional cost. The Company Secretary confirmed that the fee variation required Corporation Board approval.

**The Audit Committee agreed to recommend to the Corporation Board a one-off fee variation in respect of the annual teachers pensions return in the amount of £750.**

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*Report and Financial Statements for the year ended 31 July 2016:* An updated document was tabled at the meeting as promised. Mr Lingwood reaffirmed that PwC's internal final checks still needed to be made.

PwC

In response to a question by Mr Thompson about the proposed merger with South Tyneside College, it was noted that the Principal's resignation following his decision not to be considered for the post of Chief Executive Officer of the merged college was included as a post balance sheet event in the Members' Report. The Deputy Principal: Finance & Corporate Development indicated that this matter had been fully considered with PwC as part of the regularity audit. It was noted that she would be the College's signatory as the Accounting Officer.

In response to the Committee Chair's question, Mr Lingwood felt confident that all outstanding matters would be resolved so that updated documents could be distributed in a timely manner for the Corporation Board's meeting of 14 December.

PwC /  
AMC

**The Committee agreed to recommend the draft Financial Statements, Letter of Representation and Management Report to the Corporation Board for approval, subject to all outstanding matters being resolved as outlined above.**

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**5.b For information: Reconciliation to July 2016 Management Accounts**

The Committee received the reconciliation of the Financial Statements for the period ended 31 July 2016 to the July 2016 management accounts.

**5.c For information: Joint Audit Code of Practice, Self-assessment Questionnaire**

The Committee received the Joint Audit Code of Practice, Self-assessment Questionnaire.

**6. November Updates to Risk Management Plan 2016/17 (incl. Merger Risk Register)**

A separate, confidential minute was taken of this item.

**The Committee considered the November updates to the 2016/17 Risk Management Plan, and having requested amendments in respect of gross sub-risks 1.4 and 3.2, noted that the usual extract would be presented to the Corporation Board for information in December. The Committee noted that the Merger Risk Register had been appended to the College’s Risk Management Plan.**

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**7. Internal Audit Tracker**

The Internal Audit Tracker showed progress against recommendations made as a result of KPMG’s internal audit reviews.

Mr Thompson commented that two reviews – financial forecasting and health and safety - had been postponed until the first week of January due to the work required for due diligence. As both financial forecasting and curriculum planning were an integral part of the merger process, Mr Thompson indicated that KPMG would be flexible about the best use of internal audit and management time to avoid duplication. The Committee Chair indicated that the Audit Committee would be open to amending the internal audit plan, but felt that the health and safety review should go ahead as rescheduled to provide the Board with the necessary assurances given the legal significance of this area. The Deputy Principal reported that she had received confirmation from the Skills Funding Agency that the College did not have to undergo a subcontracting audit as the value of the contracts was below the threshold.

**The Audit Committee received the Internal Audit Tracker and was pleased to note that all current internal audit recommendations were showing as implemented.**

**8. Committee’s 2015/16 Draft Annual Self-Assessment, Including Terms of Reference and Annual Report**

Governors considered the Committee’s draft 2015/16 Annual Self-Assessment, the Committee’s terms of reference which remained in line with the revised Joint Audit Code of Practice issued in June 2016, and the non-restricted section of the Audit Committee’s Annual Report for 2015/16. This section would be submitted to the Skills Funding Agency after the December Board meeting.

**RMM**

**The Committee agreed to recommend for approval to the Corporation Board**

- **the Audit Committee’s 2015/16 Annual Self-Assessment, and**
- **the unrestricted sections of the Audit Committee Annual Report: Audit Year 2015/16 subject to the insertion of the final wording of PwC’s opinions.**

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*(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.)*

The Company Secretary would insert final updates to the Audit Committee’s Annual Report following the meeting.

**RMM**

The Committee Chair thanked the representatives of KPMG and PwC for their work on behalf of Tyne Metropolitan College over the past year. The Audit Committee looked forward to receiving final reports from PwC in time for the 14 December Board meeting.

Mr Thompson, Mr Lingwood and Mr Morton left the meeting at 10.30 am.

**9. 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). The Company Secretary was asked to complete the confidential pro-forma for submission to the Corporation Board.

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

**Following discussion, the Committee agreed to recommend the continuation of both the Internal Audit Service (KPMG) and the External Auditor (PwC) for the current financial year, 2016/17.**

*Mrs Bartlett (Staff Governor) left the meeting at 10.42 am.*

*The Deputy Principal: Finance & Corporate Development left the meeting at 10.55 am.*

**10. Any Other Business**

None.

**11. Committee's 2015/16 Draft Audit Committee Annual Report **continued**: - Restricted Section:**

*A confidential/restricted minute was taken of the Committee's consideration of the performance of the 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
- Agreed, subject to final amendment, to recommend the Financial Statements, Letter of Representation and Management Report to the Corporation Board for approval
- Agreed to present the 2016/17 Risk Management Plan extract to the Corporation Board for information with amendments as agreed
- Recognised the importance of TyneMet implementing a bespoke Retention Strategy and asked the Deputy Principal: Finance & Corporate Development to prepare documentation for the December Board meeting
- Agreed to recommend the Committee's 2015/16 Annual Self-Assessment and the Annual Report, including the restricted section to the Corporation Board for approval
- Agreed to recommend the continuation of the Internal Audit Service and External Auditor in 2016/17

**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 5.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 5.b, Reconciliation to July 2016 Management Accounts
- Item 6, November Updates to Risk Management Plan 2016/17 and Merger Risk Register
- Item 8, Restricted section of Audit Committee's Annual Report
- Item 9, Evaluation of Performance of Internal Audit Service and External Auditor

The meeting closed at 10.58 am

**Next meeting:** 9.00 a.m. on Tuesday, 7 March 2016

RMM

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