Minutes of the Meeting of the Corporation’s Audit Committee

Held on 17th November 2014 at 5.00pm

Held in the Boardroom in the South Building

Present:  
Ms Debbie Davies  
Dr Russell Moseley  
Mr Stuart Rolt (Chair)  
Mrs Sandra Smith

In Attendance:  
Mr Jim Edwards, Clerk to the Corporation  
Ms Clare Hatton, Assistant Principal MIS  
Mr Mark Payne, Assistant Principal Finance  
Mr Tim Foster, BDO LLP, Internal Audit Director  
Mr Paul W, BDO LLP, Internal Audit Manager  
Mr Carl Bentley, Baker Tilly, Funding Auditor  
Paul Oxtoby, Baker Tilly, Partner and Financial Statements Auditor

A25/14  Apologies for Absence

No apologies for absence were received, with all Governors being present.

A26/14  Declarations of Interest

There were no declarations of interest.

A27/14  Minutes of the Last Meeting held on 18th June 2014

The minutes of the last meeting held on 18th June 2014 were approved as a true record.
A28/14  Matters arising

i) Under A17/14, 5, ii), Internal Audit Progress Report 2013-14, it was confirmed that the Block 2 and 3 internal audit reports from 2013-14 had been presented to the Corporation at its meeting on 9th July 2014. It was further confirmed that the reduced number of internal audit days in the plan for 2014-15 had been considered at the previous meeting, and it had been agreed that this would be kept under review.

ii) Under A18/14, 6, Internal Audit Report – Block 2, the Assistant Principal MIS reported that improved levels of information on the financial support available to students had been put in place on the College’s website. It was further reported that the Learner Support Fund had been fully allocated in 2014-15, which indicated that students were aware of funding support they could apply for. Governors accepted the assurance from the College that reports were provided at management level in order to monitor and review the demand for and the use of student funding support.

iii) Under A19/14, 5, iii), Internal Audit Report – Block 3, Governors were informed that the outstanding recommendation in respect of the IT disaster recovery plan had now been implemented.

iv) Under A20/14, 6, ii), Annual Internal Audit Plan 2014-15, it was confirmed that the three-year internal audit plan would be reviewed at the Audit Committee meeting on 17th June 2015.

v) Under A21/14, 8, ii), Letter of Engagement and Fee for audit of Financial Statements for the Year Ended 31st July 2014, it was reported that the external audit fee had been maintained at the previous year’s level.

vi) Under A24/14, 3, i), Any Other Business, it was reported that the tendering process for both the internal and external audit services would begin during week commencing 17th November 2014, thus enabling appropriate Governor approvals to besought at the Corporation meeting on 10th December 2014.

A29/14  Internal Audit Report 2013-14

1. Mr Tim Foster, the Internal Audit Director from BDO LLP, presented Governors with the Annual Internal Audit Report for 2013-14, which covered a review of the internal audit work that had been carried out during the year, along with a summary of the audit recommendations that had been agreed with College management; an annual statement of assurance; and assessment of performance against the internal audit plan for 2013-14; and internal audit performance indicators.

2. It was confirmed that the areas that had been reviewed during that year had been Curriculum Planning; Key Financial Systems; Review of Financial Regulations; Cash Handling and Banking; Student Finances; Management Information and Reporting; Risk Management and Corporate Governance; Health and Safety; and IT Security. A follow-up review of previous audit recommendations had also taken place.
3. It was reported that thirty recommendations had arisen from these reviews; 19 being medium priority, and 11 being low priority. This was compared to twenty-three in 2012-13, although it was noted that the profile of the recommendations was slightly better in terms of priority. Governors suggested that a clearer indication of whether the College had improved or not, in terms of the number and level of recommendations, should be provided for future reports.

4. The process of monitoring the implementation of recommendations arising from internal audits was discussed. It was confirmed that it was the responsibility of relevant managers to close out any recommendations, and it was suggested by Governors that the good practice of including the recommendations in each department’s Quality Improvement Plan for the year, should be adopted across the College.

5. Governors stressed the importance of responding to internal audit recommendations in a timely manner, and it was reported that BDO LLP would be providing an update on the implementation of the 2013-14 recommendations at the next Audit Committee meeting on 11th February 2015. It was suggested that the implementation of recommendations should be a standing item at each Audit Committee meeting, and Governors asked that BDO LLP forward an example of a tracking sheet that could be used for this purpose.

6. It was stated that in the Internal Auditor’s opinion, based on the reviews undertaken, the follow-up audits completed during the period, and in the context of materiality, the risk management activities and controls in the areas that had been examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements. It was further stated that the College’s risk management, control and governance arrangements had been operating with sufficient effectiveness to provide reasonable, but not absolute assurance, that the related risk management, control and governance objectives had been achieved during the period under review.

7. Governors commented that the layout of the report was not particularly helpful, and, in response, it was stated that for 2014-15 the format of the report would be simplified and made more user-friendly.

8. Governors resolved:-

i) to note the Internal Audit Report for 2013-14;

ii) to note the generally positive outcomes of the internal audit reviews in 2013-14;

iii) that future reports should provide Governors with a clear indication of improvements, or otherwise, that the College had made in terms of both the number and the level of recommendations;

iv) that for 2014-15 the format of the Annual Internal Audit Report would be simplified and made more user-friendly;

v) that the good practice of including internal recommendations in each department’s Quality Improvement Plan should be adopted across the College where appropriate;
vi) that a report on the implementation of internal audit recommendations should be a standing item at each Audit Committee meeting;

vii) to request that BDO LLP forward an example of a tracking sheet that could be used for monitoring the implementation of internal audit recommendations.

A30/14 Internal Audit Progress Report 2014-15

1. Mr Tim Foster from BDO LLP presented Governors with the Internal Audit Progress Report for 2014-15.

2. It was noted that the Block 1 review was currently taking place during week commencing 17th November 2014 as planned.

3. It was reported, however, that an amendment had been made to the coverage of the Block 1 audit in that Quality Assurance had been moved to Block 2, and Risk Management was now part of Block 1.

4. Governors resolved:-

   i) to note the Internal Audit Progress Report for 2014-15, and the amendment that had been made to the programme of Blocks 1 and 2.

A31/14 Members Report and Financial Statements for the Year Ended 31st July 2014

1. The Assistant Principal Finance presented Governors with the draft Members’ Report and Financial Statements for the Year Ended 31st July 2014. It was stated that the audit of the accounts was substantially complete, but that there was still some final work to carry out that might result in some amendments, although this was unlikely.

2. It was reported that the final out-turn for 2013-14 was an operating deficit of £3.669m, which included £1.25m of exceptional restructuring costs, and £157k under FRS17 accounting requirements. The underlying operating deficit was therefore £2.262m, which represented a slightly improved position compared with the figure of £2.367m reported to the Finance and Resources Committee on 23rd September 2014.

3. Mr Paul Oxtoby from Baker Tilly stated that there were two matters that remained ongoing before the annual accounts could be finalised; namely, the negotiations over the College’s bank facilities with Barclays Bank, and the final calculation of the costs related to the management restructuring that had been completed in October 2014.

4. It was confirmed that the Finance and Resources Committee would consider the final draft of the Members Report and Financial Statements at its meeting on 25th November 2014. The Corporation would then be recommended to approve the Members’ Report and Financial Statements at its meeting on 10th December 2014, by which time the outstanding matters would need to have been resolved.
5. It was stated that, because of the size of the operating deficit in 2012-13, the College had breached its covenant with Barclays Bank. The bank’s credit committee were meeting to determine whether to waive the breach, or whether to vary the conditions of the loan arrangements. It was noted that, until this was resolved, the accounts could not be signed off.

6. Governors resolved:-

   i) to receive and note the content of the draft Members Report and Financial Statements for the Year Ended 31st July 2014;

   ii) to note that the issues of the bank facilities with Barclays Bank, and the final calculation of the costs related to the management restructuring would have to be resolved before the accounts could be signed off;

   iii) that the governance section of the Members’ Report needed to be updated for the final draft, and should include details of individual governor attendance.

A32/14 Draft Final Audit Findings Report for the Year Ended 31st July 2014

1. Mr Paul Oxtoby from Baker Tilly presented Governors with the Draft Final Audit Findings Report for the Year Ended 31st July 2014, which summarised the key outcomes of the Financial Statements Audit and the Regularity Audit.

2. It was confirmed that Colleges were required to submit a copy of the Audit Findings Report to the SFA by 31st December annually.

3. The key audit and accounting issues that had been identified at the audit planning stage were drawn to Governors’ attention. It was reported that the College’s accounting policies in respect of funding and income were in accordance with the guidance in the Accounts Direction Handbook and other standards.

4. It was further confirmed, as per the previous minute, that the report was at a draft stage as the audit of the accounts had not yet been finalised, due to work that was outstanding on the bank facility, and staff restructuring costs. These issues were considered in detail by Governors, and it was noted that, apart from these, there were no other major concerns that had been identified during the audit.

4. In terms of the staff restructuring costs, it was explained that the 2013-14 accounts showed a figure of £1.25m, which included an accrual of £375k. This accrual related to the final elements of the restructuring process, which, although completed in October 2014, had actually been identified before 2013-14 year-end.

5. It was reported that the external auditors therefore required evidence from the College that this accrual had been appropriately made. Governors were assured that this evidence existed and would be provided to the auditors accordingly.

5. The current situation with the bank covenants and the negotiations over the College’s bank facility were considered by Governors, and it was stated that the Finance and
Resources Committee were overseeing this work from a governance perspective. Nonetheless, it was agreed that it was important for the Audit Committee to have an understanding of the issues at hand, given that they related to the 2013-14 accounts being finalised.

6. It was reported that Baker Tilly had advised that the accounts should not be signed off until the banking facility arrangements had been satisfactorily resolved. Governors were informed that if this outstanding work was not completed by the deadline of 31st December, then the College would seek to extend the deadline with the Skills Funding Agency.

7. It was stated that Baker Tilly’s Banking Advisers had been separately engaged to advise the College, and were projecting that the deadline of 31st December would be met.

8. Governors resolved:-

   i) to receive and note the content of the draft Audit Findings Report for the Year Ended 31st July 2014, including the letters of representation;

   ii) that the College should provide the auditors with the requisite evidence in respect of the staff restructuring accrual of £375k;

   iii) to endorse the negotiations that the College was undertaking with Barclays Bank in order to resolve the outstanding banking facility issue.

A33/14 SFA Funding Audit 2013-14

1. The Assistant Principal MIS and Karl Bentley from Baker Tilly presented Governors with a summary of the outcomes arising from the recent Skills Funding Agency’s funding audit on the College’s 2013-14 student numbers and funding claim. It was reported for clarification that Baker Tilly had been commissioned by the Skills Funding Agency to undertake the audit.

2. It was reported that the audit had been described as straightforward and that an unqualified audit opinion had been provided. It was stated by Baker Tilly that robust data had been evidenced on the whole, and Governors noted the extensive work that had been undertaken by the College to arrive at this position.

3. However, it was reported there were a few issues that had been picked up by the auditors, and these were reported to Governors.

4. Although the College had received a clean audit in respect of its sub-contracting arrangements with Copsewood in 2013-14, it was very likely that the Skills Funding Agency would not allow this funded provision to continue in 2014-15, because of their funding status.

5. Some funding had been disallowed because of the prior learning of PSV apprentices had not been taken into account when moving from Level 2 to Level 3. Accordingly, there had been an overclaim of funding.
6. Finally, it was reported that, because of a lack of evidence, some funding in respect of Additional Learning Support had been clawed back.

7. Governors resolved:-
   
i) to note the generally positive outcome of the Skills Funding Agency’s funding audit on the College’s provision in 2013-14;
   
ii) to note the improved quality of MIS data;
   
iii) that the outcomes of the funding audit should be reported in the Annual Audit Committee Report for 2013-14;
   
iv) that recommendations arising from the audit should be added to the audit recommendations’ tracker and reported upon at the next Audit Committee meeting on 11th February 2015.

A34/14 Annual Report of the Audit Committee

1. The Clerk to the Corporation presented Governors with the draft Annual Report of the Audit Committee to the Corporation for the year 2013-14.

2. It was confirmed that the Audit Committee was required to produce an annual report for the Corporation and the Principal Accounting Officer, which included advice on the effectiveness of the College’s Risk Management, Control and Governance processes.

3. It was noted that the format of the report followed the guidance on the Skills Funding Agency’s and the Education Funding Agency’s Joint Audit Code of Practice (JACOP).

4. It was further noted that the draft text would need to be updated following consideration of relevant items of business at this Audit Committee meeting; namely, the Members Report and Financial Statements for 2013-14, and External Audit Findings Report for 2013-14.

5. Governors considered the content of the draft report, and agreed that the section on risk management should be re-worded to reflect more accurately the Internal Auditors’ positive opinion about the College’s risk management arrangements.

6. Governors resolved:-
   
i) to receive and note the content of the draft Annual Audit Committee Report for 2013-14;
   
ii) that the Clerk should finalise the draft text following considerations at the Audit Committee meeting;
iii) that the final draft of the Annual Audit Committee Report 2013-14 should be presented to the Corporation at its meeting on 10th December 2014.

A35/14 Risk Register 2014-15

1. The Clerk to the Corporation presented Governors with the draft Risk Register for 2014-15 for recommendation to the Corporation at its meeting on 10th December 2014.

2. Governors considered the content of the Risk Register in detail, and particular discussions were held on the rationale behind the proposed risk ratings. Consequently, changes were made to some of the inherent risk ratings as well as the residual risk ratings.

3. In addition, Governors discussed the IT Disaster Recovery Plan. It was confirmed that it was tested annually, and the results recorded.

3. Governors resolved:-

   i) that, subject to the changes discussed, the Risk Register 2014-15 should be recommended to the Corporation for approval at its meeting on 10th December 2015.

A36/14 Date of the next meeting

The date of the next meeting was confirmed for Wednesday 11th February 2015 at 5.00pm.

A37/14 Publication of Documents


[The Clerk to the Corporation and senior managers left the meeting at this point, leaving the Independent Governors to discuss the remaining items on the agenda.]

A38/14 Clerkship of the Audit Committee

1. Governors considered a briefing paper on key changes to the clerking arrangements that had been applied with effect from 1st November 2014. It was reported that, following a restructuring of the senior management team, the Clerk to the Corporation post had been designated as a separate and independent role. Therefore, the Clerk no longer had management responsibilities at the College.
2. Governors agreed that the independence of the Clerk was important, and that the restructuring had strengthened this particular element of the role.

3. Governors resolved:–
   
i) to endorse the revised clerking arrangements as they applied to the Corporation;
   
ii) that the arrangements should apply to the Audit Committee during 2014-15.

**A39/14 Meeting with Internal and External Auditors**

1. Governors held a private meeting with the Internal and External Auditors to ascertain the relationship with College management and to address any issues of concern.

2. The Internal Auditor reported that the working relationship with College management had been generally positive over the past 12 months. It was noted, however, that, in some cases, management responses to internal audit reports had not been as prompt as they should be.

3. The implementation of internal audit recommendations was discussed, and Governors re-iterated their concern that management were not monitoring them as rigorously as they might. Accordingly, Governors and the Internal Auditors confirmed that a formal internal audit tracker would be a very useful tool for monitoring the implementation of the recommendations at each Audit Committee meeting.

4. Turning to the draft Members’ Report and the Financial Statements, Governors noted that the document had not been completed as fully as it should have been ahead of the Audit Committee meeting, and that this should be remedied for the future.

**Meeting commenced 5.00pm**
**Meeting closed 7.05pm**

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