

**CONFIRMED MINUTES OF THE AUDIT COMMITTEE HELD ON FRIDAY 25
NOVEMBER 2016 IN THE COMMITTEE ROOM AT GREEN LANE**

Present

Ian Swain	Independent Governor (Chair)
Sarah Fawcett	Independent Governor
Ian Butchart	Independent Governor

Also in attendance

Stuart Slorach	Vice Principal Resources
Martin Raby	Principal
Jackie White	Clerk & Governance Advisor
Claire Leece	RSM

	Action
<p><u>PRIVATE MEETING WITH THE AUDITORS</u> Members held a privately with the auditors prior to the main meeting.</p> <p><u>DECLARATION OF INTEREST</u> There were no further declarations of interest.</p> <p><u>APOLOGIES FOR ABSENCE</u> Apologies were received from Denise Ogden, Independent Member.</p>	
<p><u>AC16 001 UNCONFIRMED MINUTES OF THE MEETING HELD ON FRIDAY 24 JUNE 2016</u> The minutes of the last meeting were agreed as an accurate record with the following amendments:</p> <p>Page 2, AC15 031 External Audit Report, 5th paragraph, last line, replace IT staff with Audit Committee. Date and Time of next meeting – replace Friday 24 June 2016 with Friday 25 November 2016.</p>	Clerk
<p><u>AC16 002 MATTERS ARISING</u></p> <p>AC15 037, Internal Audit Plan 2016/17, the Clerk confirmed the Internal Audit Report had been approved by the Board in July. AC15 041, Health & Safety Update, the Clerk confirmed that an update on H&S had been considered by the Board in July. AC15 031, External Audit Plan, the Vice Principal Resources confirmed that he had provided the Clerk with information on the cyber defences and asked the Clerk to circulate this to members AC15 033, Internal Audit Report, Business Continuity, the Vice Principal confirmed this action was still outstanding but that he is</p>	Clerk Vice Principal

<p>working with a consultant on the plan. He expected this to be completed by February 2017.</p> <p>AC15 034, Internal Audit Report – Library Services, Ian Butchart confirmed that he had discussed the option of non academic areas with the Board.</p> <p>AC15 032, Internal Audit Report Follow up, the Vice Principal Resources confirmed that this was still outstanding and would pick this up.</p>	<p>Action</p> <p>Resources / Clerk</p> <p>Vice Principal Resources / Clerk</p>
<p><u>AC16 003 FINANCIAL STATEMENTS 2015/16 AND BANK COVENANT SCHEDULE</u></p>	
<p>The Vice Principal Resources spoke to his previously circulated report and members noted that this is the first year that the College has produced accounts under FRS102 and the F&HE SORP 2015. This has some considerable impact in the presentation of pension costs in the accounts and may be confusing to the readers. It has also meant that the 2014/15 figures have had to be restated to be comparable.</p> <p>However, the College generated an operating surplus of £93k for the year ended 31 July 2016. The previous reported surplus was £221k in 2014/15 but this has been restated due to changes in treatment of pension costs to an operating loss of £(25)k.</p> <p>The current year results include</p> <ul style="list-style-type: none"> • Restructuring costs of £36k are included (£212k in 14/15) • Cash balances of £3,069k at the year end <p>However, actuarial adjustments for the pension scheme are now included in the Statement of Comprehensive Income which push the College into a £(1,519)k Comprehensive Loss for the year. This does not impact on the Banking Covenants. This compares to a restated loss of £(484)k for 2014/15.</p> <p>The College is expecting to retain its Outstanding Financial Health position for 2015/16 but this will only be confirmed by the SFA in February / March 2017</p> <p>The Principal commented that he had a few alterations to the accounts as follows:</p> <p>Page 13, date of appointment of governors should be the original date appointed as governor</p> <p>Page 25, Going concern, 2nd paragraph should read the College currently has unsecured loans of £1.8m outstanding with the bank</p> <p>Page 31, reference to higher paid staff, the Principal confirmed that he did not receive a banding change last year.</p>	
<p>Sarah – Equal opportunities, the statement in the College relating to Equality Opportunities needs to be reviewed, however for the accounts the paragraph should be amended from gender reassignment to gender orientation.</p>	<p>Vice Principal Resources</p>

Sarah referred members to page 27 with regard to the adoption of FRS 102 and in particular the book value of land and buildings and that these were valued in 1996 and questioned whether the College should have re-valued the buildings. Clare Leece confirmed that there is no need to re-value.

Sarah raised that under assets under construction, based on the value of architects' should be amended to based on the value of quantity surveyors.

Sarah referred members to page 19 relating to maintenance and integrity of the College website and sought clarity on the role of the governors.

Ian Butchart referred members to page 39 with regard to the present value of plan liabilities and asked what this covered, the Vice Principal Resources confirmed that the detail was covered in the table on page 38.

Ian Swain commented that it is a credit to the College management on the result of the financial statements given the reduction in revenues. The Principal commented that if we don't manage to increase HE numbers we will need to revisit the Strategy but we do have a small level of comfort in the financial position.

With the above changes reflected in the Financial Statements the Audit Committee **AGREED** the Financial Statement and **RECOMMENDED APPROVAL** by the Corporation Board

Clerk

AC16 004 **BANK COVENANT**

The Vice Principal Resources discussed the bank covenants with members and advised that the Bank have said that they will apply the covenants in the same way as previously to ensure that any changes to the finances as a result of FRS102 accounting legislation do not adversely impact the position of the College.

Ian Swain referred the Vice Principal Resources to the covenant relating to balance sheet gearing and commented that it looked like the College were in breach of the covenant. Claire Leece advised that the Bank has asked for an additional opinion from the Auditors to state whether the College complies with the covenants under the old accounting regime. The Vice Principal Resources confirmed that that the accounts describe the adjustments made relating to FRS102 and that covenants were not breached and the report would be reviewed.

Matters arising: This is a covenant that was applied by the Bank under the old covenant arrangements but this covenant is no longer applicable from March 2016 when this covenant was dropped from the loan agreement

AC16 005 **AUDIT FINDINGS REPORT OF THE EXTERNAL AUDITOR**

Claire Leece, RSM spoke to her previously circulated reports and members noted that the report summarises the key findings in connection with the audit of the financial statements of the College in respect of the year ended 31 July 2016. Claire advised that she considers that the audit approach adopted will provide the Audit Committee with the required confidence that a thorough and robust audit has been carried out.

Claire advised that the scope of their work on the financial statements and the regularity assurance engagement has already been communicated to the Audit Committee via the Audit Plan document dated 24 June 2016.

A summary of adjusted and unadjusted misstatements identified during the audit has been prepared and is included in Section 4.

Claire discussed that RSM consider that the audit and regularity assurance approach adopted will provide the Audit Committee with the required confidence that thorough and robust audit and regularity assurance engagements have been carried out.

Claire confirmed that, at the date of this report, she anticipates no modifications from her pro-forma financial statement audit report or the regularity assurance report provided in the Audit Plan previously communicated to the Audit Committee.

A summary of the unadjusted/adjusted errors identified during the course of our work has been identified in the report, analysed between errors of fact and differences in judgement.

No potential impropriety issues were identified during the audit.

No significant issues were highlighted with regard to audit, accounting and regularity audit work.

Claire drew member's attention to page 13 with regard to Fraud and to remind members that principal responsibility for the prevention and detection of fraud rests with management with the oversight of those charged with governance, who should not rely on audit to discharge those functions. Members are informed by internal audit, external audit and management. Any suspected fraud or discovered fraud should be reported as soon as possible.

Sarah asked if there had been any fraud reported this year and the Vice Principal advised that there hadn't been.

Ian Butchart commented that Appendix B was very useful and that the Clerk should circulate this to all governors.

Sarah Fawcett commented on apprenticeships and asked the Vice Principal Resources whether the College had any intention

to employ apprentices. The Vice Principal Resources advised that the College didn't have any at the moment and it was unlikely that the College would provide apprenticeships.

The Committee **APPROVED** the External Audit reports.

AC16 006 LETTER OF ENGAGEMENT

Claire Leece spoke to her previously circulated letter of representation which sets out the opinion of the External Auditor on whether the financial statements give a true and fair view.

The Audit Committee **NOTED** the Letter of Engagement

AC16 007 DRAFT AUDIT COMMITTEE ANNUAL REPORT

The Vice Principal Resources spoke to his previously circulated report and members noted that under the Joint Audit Code of Practice (JACOP), there is a requirement for the audit committee to produce an annual report, which is submitted to the corporation prior to the Statement of Corporate Governance and Internal Control being signed. The Audit Committee is responsible for providing insight to the "Corporation on the adequacy and effectiveness of the College Corporation's assurance framework".

The Audit Committee annual report:

- Summarises the committee's activities relating to the financial year under review, not only those activities undertaken in-year;
- Includes the committee's opinion on the adequacy and effectiveness of the college's assurance framework of governance, risk and control and how the college has secured value for money; and
- Underpins the board's own opinions in the Statement of Corporate Governance and Internal Control in the annual financial statements

In line with the requirements of the Accounts Direction 2015 to 2016, English colleges are required to submit the audit committee annual report to the responsible funding body. In CCAD's case this will be a submission to the Skills Funding Agency (SFA).

The Audit Committee **APPROVED** the Audit Committee Annual Report

AC16 008 RISK MANAGEMENT UPDATE

The Vice Principal Resources spoke to his previously circulated report which highlighted the key areas of risk that the College faces over the coming months. Members noted that the College is operating in an environment where uncertainty and risk are becoming more of an issue that has been in the past. With a growth strategy and an increasingly competitive and uncertain market comes an element of risk and investment may be required which in turn adds an element of risk and uncertainty.

Key risks to the College over the course of the coming months include:

- Government policy including BREXIT
- Local Area Review aftermath, incl. the Combined Authority
- Hartlepool construction project
- Cash flow and banking covenants
- HE recruitment
- FE recruitment
- New risk identified around the potential change in name of the College

The Principal suggested that TEF be added to the risk register. The Principal advised members that based on the current metrics issued the College is a strong silver but it is understood that the metrics might change slightly between categories and therefore may affect the College outcome.

The Audit Committee **NOTED** the risk management update.

AC16 009 RISK REGISTER

The Vice Principal Resources provided an update on the risk register with regard to amber and red risks.

The Audit Committee **NOTED** the risk register.

AC16 010 INTERNAL AUDIT RISK LOG

The Vice Principal Resources spoke to his previously circulated report and members noted that Since the appointment of KPMG as Internal Auditors in 2013/14 there have been 50 recommendations made in relation or internal controls and governance. Of these 45 have been closed / implemented with 5 ongoing.

The Audit Committee **NOTED** the Internal Audit Risk Log update

AC16 011 INTERNAL AUDIT RECOMMENDATIONS TRACKER

The Vice Principal Resources spoke to his previously circulated report and members received an update with regard to stakeholder engagement, employability, enrichment and pastoral hours, reporting of management accounts, succession planning, training of staff and disaster recovery plan.

Ian Swain asked the Vice Principal Resources whether the previous auditors recommendations had been added to the tracker and the Vice Principal Resources confirmed that the actions had been included in the follow up report.

The Audit Committee **NOTED** the internal audit recommendations tracker

AC16 012 ACTIONS FROM THE CORPORATION BOARD REGARDING E&D AND SAFEGUARDING

	Action
<p>Ian Butchart referred members to the previous discussions regarding E&D and Safeguarding at the Corporation Board and that Sarah Fawcett had requested an independent review of the College systems and processes on these areas.</p> <p>Sarah advised that she was not concerned and that if this was not part of the audit plan this year that would be ok as long as it got picked up next year. The Vice Principal Resources confirmed that there was an option of adding it in to the existing days and swapping it for something else.</p> <p>Claire Leece commented that the College would need to be clear on the scope in order to allow for enough days of audit.</p> <p>It was agreed that the Vice Principal Resources speak with the Internal Auditors to see if this was possible.</p> <p>The Principal commented that if it was only possible to do one of the areas, Safeguarding would be more of a priority than E&D.</p> <p>The Audit Committee DISCUSSED the audit of E&D and Safeguarding</p>	<p>Vice Principal Resources</p>
<p><u>AC16 013</u> <u>CONFIDENTIAL</u> <u>REVIEW PERFORMANCE OF INTERNAL AND EXTERNAL AUDITORS</u></p> <p>The Vice Principal spoke to his previously circulated report and members noted that a review of the audit appointments on an annual basis is good practice. The experience of KPMG has been mixed but with ultimately a reasonable service delivered. RSM (previously Baker Tilly) has been a successful relationship and real value is gained from this appointment.</p> <p>Based on the above the Audit Committee were satisfied to retain the current auditors.</p> <p>The Audit Committee DISCUSSED the review of the performance of the internal and external auditors</p>	
<p><u>AC16 014</u> <u>ITEMS TO HIGHLIGHT TO THE CORPORATION BOARD</u></p> <p>It was agreed that the Financial Statements should be recommended to the Board for approval and circulated Appendix B of the RSM plan to the Corporation Board</p>	<p>Clerk</p>
<p><u>AC16 015</u> <u>ANY OTHER BUSINESS</u></p> <p>There were no further items of business.</p>	
<p><u>AC16 016</u> <u>CONFIDENTIAL MATTERS</u></p> <p>The performance review of the internal and external auditors was confidential</p>	
<p><u>AC16 017</u> <u>DATE AND TIME OF NEXT MEETING</u></p> <p>10 March 2016 at 9.30 in Middlesbrough</p>	

Signed:

Date: