

AUDIT COMMITTEE

WEDNESDAY 16 OCTOBER 2013



Report: Minutes of the meeting held on Wednesday 3 July 2013

GATESHEAD COLLEGE

Author: Clerk

Action: Approve

Status: Open

Present: Chris Macklin (Chair)
Vivien Shipley
Neil Weddle (Co-optee)
Richard Thorold

In attendance: Katie Reeves (PWC)
Paul Woolston (PWC)
Claire Leece (Baker Tilly)
Peter Gray (Baker Tilly)
John Holt
Emma Moody (Clerk)
Gwyneth Jones
Robin Mackie (Observer)

A/477 Welcome/Apologies

Chris Macklin welcomed everyone to the meeting, in particular Vivien Shipley who was attending her first meeting. Apologies for absence were received from Karen Finlayson (PWC) and Paul Woolston (PWC) attended in her place. The Chair asked everyone to introduce themselves

The Chair invited members to declare any interests on any item on the agenda. He declared an interest in item 5 of the agenda which related to the internal audit report on Commercial Activities & Subsidiaries as he was a Governor/Director of the said companies. He explained that he would hand over the Chair to Vivien Shipley for this item.

No further interests were declared at this stage in the meeting: however, members noted that should the direction of debate on an item result in a potential conflict of interest this should be indicated during the meeting. Members were also reminded to advise the Clerk of any changes to be made in the declaration of interests.

A/478 Minutes of the meeting held on 9 April 2013

Following two amendments from PWC, the minutes of the meeting held on 9 April 2013 were accepted as a correct record.

A/479 Matters Arising

A/474 Debt Collection - The Director of Finance explained that a dedicated Debt Controller had been appointed to strengthen that side of the finance in the College.

A/480 Internal Audit Progress Report

Katie Reeves of PWC introduced a report indicating progress against the Internal Audit Plan for 2012/13 which had been approved by the Audit Committee in October 2012. To date this has included completion of five reviews Quality (discussed at the meeting on 9 April 2013), Learner Engagement, Commercial Activities and Subsidiaries, Staff Admissions and Payroll and Strategic Planning. Reports on the reviews of Risk Management and Corporate Governance will be brought to the next meeting in October 2013. She referred to the four reports which she would be presenting to the Committee today and said that these were wide ranging, good reports with just a few recommendations coming out of the areas reviewed.

As part of the process of developing the Internal Audit Plan for 2012/13, it was requested that PWC undertake an additional piece of work this year on Assurance Mapping. The purpose of this work is to assist the College with the production of a 'map' which demonstrates the different types of assurance that senior management receive from various sources, and which of the College's operations these assurances cover.

On 21 November 2012 PWC held a workshop with the senior management team at which they introduced the concept of assurance mapping and presented the key elements of the process, along with a proposed template for the 'map' itself. The senior management team are currently compiling a draft assurance map for the College and the Director of Finance indicated that they hope to have this draft assurance map in time for the next meeting in October 2013. The map will tie in with the Risk Management Plan and the Risk Register and the intention is to link those two documents together.

Katie Reeves advised that within the coming weeks PWC would be having discussions with senior management to discuss the Audit Plan for 2013/14. She referred to the list of indicative audits for 2013/14 which was on page 5 of the report and advised that PWC would welcome ideas from members of the Audit Committee as to whether there were any areas which they believed should be covered in the 2013/14 internal audit programme of work.

A member referred to the big change in Study Programme (September 2015) which will impact on the funding methodology. The Director of Finance explained that the College would be funded according to the number of hours on that programme. In future, the Government's focus will be on core qualifications. The member thought consideration should be given to that as it would be a major change.

Corporate Governance and Risk Management were mandatory audits which were undertaken on an annual basis. Accounts Receivable and Accounts Payable were looked at every five years; Corporate and Social Responsibility, the Gateshead College Foundation and International Activity are the ones which have been chosen by the Committee for this year's review. The Chair advised that he would raise this under Any Other Business at the Board meeting taking place tomorrow (4 July) to ensure that the Board felt that these areas of focus reflected the balanced scorecard. Karen Finlayson would be meeting with John Holt to take this forward.

RESOLVED to note the contents of the report

A/481 Internal Audit Reports

The Chair reminded the Committee of his conflict of interest with the report on Commercial Activities & Subsidiaries. He had asked Vivien Shipley to Chair this part of the meeting but as it was her first meeting it was agreed that this would be discussed last so that she could become acquainted with the proceedings.

Learner Engagement

Katie Reeves of PWC introduced a report of a review on Learner Engagement. She advised that the recommendation on page 3 of the report listed as 'High risk' should be 'Low risk'.

The audit focused upon the learner engagement initiatives that are in place at the College, how these operate and what methods are used to evaluate and monitor the success of these initiatives.

Their work had identified the following positive findings in relation to the College's approach to Learner Engagement. There is a comprehensive learner engagement strategy in place. It clearly sets out the aims and objectives of the College regarding learner engagement and the strategy to engage learners and improve standards and quality.

The College has employed a sabbatical President of the Student Union, who is elected by their fellow learners. The President sits on the Board of Governors, College quality forums (such as the HE forum) and other College working groups as an elected representative of the student body.

Course representatives are elected to sit on the Student Parliament and represent the 'voice' of their fellow learners. The representatives engage with College management on a range of issues that affect the student body.

Learners are given the opportunity to provide detailed feedback and discuss their experiences at the College through attendance at focus groups convened for each subject area.

There is a clear process through which results of learner surveys and learner feedback are incorporated into the College's Quality Improvement Plan for future action.

The College has introduced an 'At risk' register, a list of 'disengaged' learners most at risk of withdrawing from study, during the current academic year with the aim of re-engaging learners and thus improving learner retention. They had noted that retention was up by 2.7% in the current year when compared to the same time in the previous year.

Staff directly responsible for learner engagement display an understanding of the importance of their role to the College's overarching strategy and work together to implement the initiatives identified.

The 'Low risk' recommendation identified in this area was that 'it should be ensured that the student President and/or the student representatives actively engage at the Board of Governors and Academic Standards Committee meetings'. PWC had not been able to verify that interaction took place on a regular basis.

Agenda No: 2

The Chair enquired whether Gateshead College was unique and Katie Reeves replied that the College should be proud of its learner engagement and wide range of activities. She said it was towards the top end of what she sees in terms of other colleges. The Principal said he would be interested to know what to do to step up to the next level; about peer review and helping each other. Katie Reeves replied that good practice would have been listed in the report if had been noted. Robin Mackie, Chair of the Corporation said it was daunting for Student Governors in meetings but he always attempted to engage with them in an appropriate fashion. He thought it was important to have the student voice heard.

RESOLVED to approve the contents of the report

Staff Admissions and Payroll

Katie Reeves of PWC introduced a report of a review which focused on the areas of Staff Admissions and Payroll.

Findings had shown that procedures are in place for the processing of starters and leavers which are available to staff. Access to the Payroll system is restricted and there is prompt removal of access for leavers.

During the review three recommendations were identified in the following areas: starters; leavers; and evidence of review and segregation of duties. In a sample of 30 new starters, one case was identified where no ID was retained on file and one case where there was no medical questionnaire on file.

As part of the staff induction, the College delivers safeguarding training. A sample of ten starters tested found that four had not received safeguarding training.

A 'Medium risk' recommendation proposed that 'All checks will be carried out for new joiners and the relevant information retained on file with checks completed before the joiner starts in their post. Safeguarding training will be undertaken with all new joiners'.

A 'Low risk' recommendation proposed that 'All leavers' forms will be fully completed and signed by HR. Forms will be completed before the employee's leaving date to ensure overpayments are not made. All final salary payments will be checked to ensure they are accurate and all overpayments chased to recover the monies owed'.

A 'Low risk' recommendation proposed that 'The Finance Manager will check that bank details have been correctly entered'.

A member enquired about the fact that there was only one named person responsible for the action, the HR Manager, and commented that the safeguarding policy was going to the Board tomorrow for approval. Did this issue need to fit into the College's overall policy? She did not see safeguarding as a HR issue. The Principal replied that equality and diversity and safeguarding had been part of the Director of Human Resources responsibilities. John Gray, Strategy Manager, Learner and Customer Services was the lead for safeguarding in the College and David Mitchell was the Governor with responsibility for this area. A member commented that he felt reassured that there was one person with responsibility for each area.

The Principal indicated that all safeguarding training undertaken will be recorded. He said it would be interesting to know which new starters had not received training and why, and whether they had in fact received training but it was simply not on the

Agenda No: 2

induction day. He would have greater concerns if new starters were missed altogether. PWC would monitor this on the “follow up” tracker.

RESOLVED to approve the contents of the report

Strategic Planning

Katie Reeves of PWC introduced a report of a review on Strategic Planning. The audit focused on the strategic planning process and how this operates, as well as how the planning process links to the operational running of the College. They also reviewed how the overall strategic direction of the College is monitored.

PWC identified the following sub-processes for inclusion in the review: strategic planning process; strategic objectives and operational activity; stakeholder consultation; international strategic planning; and ongoing monitoring. During the audit PWC noted that the international strategic plan is currently in its inception stage so this will be reviewed next year.

The findings had found a number of areas of good practice which included; strong ownership of the strategic planning process by senior management; communication with staff at all levels in the strategic planning process; in depth review of stakeholder needs, and incorporation of these into the strategic plan; the plan has been aligned to the College’s overall objectives; dissemination of the strategic plan, both in summary and in detail, on the College intranet; a revised approach to identifying and reporting of key strategic objectives, in the form a balanced scorecard; and in depth monitoring of the objectives of the strategic plan.

During the review, PWC identified one ‘Medium risk’ recommendation which proposed that ‘A timetable should be produced by the College which sets out the key milestones and responsibilities in compilation of the strategic plan’ to increase awareness of what is required.

The Principal acknowledged that this recommendation was a good one. The Director of Finance explained that the whole process had been revised this year and the draft strategic plan was prepared before March 2013. One deadline was to have the strategic plan budget ready for the early July Board meeting; the timing of everything behind that to get to deadline date.

The Chair of the Corporation noted that there needed to be a plan for how the college would react to changes in the funding cycle.

RESOLVED to approve the contents of the report

Vivien Shipley Chaired this item

Commercial Activities & Subsidiaries

Katie Reeves of PWC introduced a report of the review of Commercial Activities & Subsidiaries. The College has a number of wholly owned subsidiary companies which perform activities with specific areas of focus. This audit covered the subsidiary companies Zero Carbon Futures and Charge Your Car North. Both of these subsidiary companies have been set up to operate in the green energy market. Funding for these subsidiaries is achieved through a mixture of European public grant funding and private funding. At present there is a shift towards more commercial operations as

Agenda No: 2

Regional Growth Fund and European Regional Development Fund grants come to an end.

PWC identified the following sub-processes for inclusion in the review: Strategy & Business Planning; Governance; Budget Setting; and Ongoing monitoring (financial and operational).

The findings had found a number of areas of good practice which included: the timesheet system is fully developed and ready to be utilised; the team at the subsidiaries are very aware of project monitoring and no issues have been raised in relation to individual project monitoring; and the subsidiaries have contributed to the development and work for successful grant bids for the College.

PWC found that there is no current long term business plan in place for Zero Carbon Futures, and understand that the plan is being revised from a number of strategy documents that are in place. Without a finalised business plan in place, there is no overall strategic direction set to where the business should be aiming and how they should be operating. They felt this can lead to the business performing work that does not benefit the overall strategic aims and can also lead to staff de-motivation. Robust business planning is an essential part of any successful business. There is a risk that key objectives are not met if long term business plans are not aligned to the strategic direction of the College. The Chair noted that this initiative was previously government funded but once that came to an end, it would need its own business plan. This needed to be produced asap as the venture needed to be sustainable.

It was agreed that the Chair and members of the SMT would discuss this further.

The Director of Finance advised that the Plugged in Places project managed by Charge Your Charge North Ltd was coming to an end and he was in the process of wrapping it up. There was a follow on project for 12 months; Nissan Europe appointed Zero Carbon Futures to oversee the Nissan Quick Charge Project which will run from April 2013 until December 2014. This meant one project was winding up and one was winding down.

RESOLVED to approve the contents of the report

A/482 ILR Validation Report – Tenon Green Flag

The Director of Finance introduced an ILR Validation Report which was an extra review which the College had commissioned Tenon Education Training and Skills to undertake.

Tenon Education Training and Skills have developed a series of routines to test the credibility of the data held in the ILR to ensure that qualifications within the ILR have been correctly coded and that as far as can be deemed by the ILR data; that the College is following the 'Data Management Principles'.

The assessment was made up of 18 major data issue tests and 23 minor data issue tests. Each test result is graded by a red (above tolerance), amber (within tolerance), green (below tolerance) traffic-light style indicator. The assessment of the ILRs supplied lead to the College passing the criteria and as a result it has been awarded with the Tenon Green Flag Data Quality Award. This assessment improved cross-validation and this summer the College intend to do it again. It provides a solid basis for an Ofsted inspection.

Agenda No: 2

The Director of Finance advised that he had sent the information to Tenon and asked them to do the report. They either give you a 'green flag' or they do not. This was another reassurance for the College from another set of data.

RESOLVED to note the contents of the report

A/483 External Audit Financial Statements Audit Strategy year ended 31 July 2013

Claire Leece of Baker Tilly presented the External Audit Plan for the year ending 31 July 2013 for consideration and approval by the Committee. The Plan set out the key actions to be undertaken by the auditors and the College each month to ensure the reporting timetable is met. It was noted that in November and December 2013 the findings will be added.

Peter Gray of Baker Tilly outlined the key business and audit risks affecting their audit plan and explained that some matters were common to all colleges. These include: Income recognition; FRS 17 – Retirement Benefits; Regularity Review; Financial Health and Going Concern; Fixed Assets – Capital Developments; Accounting group structure and subsidiaries. If any other matters come up they will be added to the Plan.

Claire Leece indicated that she would welcome any thoughts or clarification and areas where the College want Baker Tilly's opinion. A member commented that overall asset valuations have been difficult and enquired what is the Account Policy for this. He said that a number of buildings were on 20 year leases; and some were unique.

Baker Tilly will explicitly report on this as part of their review.

She referred to a chart in the Plan which showed the Group structure expected to be in place as at 31 July 2013. Claire Leece referred to the Fees proposed which has changed within these organisations.

Matters brought forward from the previous year covered three recommendations which Baker Tilly had made in their findings report following the 31 July 2012 audit. These were Overseas Travel – procedures for approval of expenditure; Severance Payments – guidance included in updated Financial Memorandum issued by the Skills Funding Agency; and Loans to Tyneside Training Services Limited – ensuring recoverability by the College. Following the College's acceptance of these recommendations, no actions remain outstanding. The actions taken will be followed up as part of this year's audit and should any issues be noted, they will be reported to the Committee.

In terms of Materiality, the governors have primary responsibility for ensuring that annual financial statements are free from material misstatement or error. In addition, governors are responsible for identifying any material irregular or improper use of funds by the College or material non-appliance with the SFA terms and conditions of funding. Baker Tilly is not aware of any issues around Fraud but if anyone is aware they would like to know. The Chair replied that he was not aware of anything. "Material" for these purposes would be anything over £2k, although materiality can differ from area to area.

The Chair asked if there was different criteria to apply in determining whether or not the College was viable as a "going concern". Claire said that the quality of info from Gateshead College was always very high, she reviewed it before sign off and highlighted concerns if she needed to.

Agenda No: 2

A member commented that it would be interesting to see what drain the subsidiaries have on the College and the process for signing off on group accounts.

Claire Leece informed the Committee that there would be changes to the financial reporting landscape going forward. Changes to FRS 102 for January 2015 onwards would impact on Gateshead College in the year to July 2016 (she will be looking at it from July 2014). The Chair indicated that he would like to think that the College would be on the front foot. The Principal enquired what would be changing for the College and Claire Leece replied that Income Recognition (Draft FRS 102 give choices) but she was not anticipating this to be a significant issue for the College. The second thing that was changing related to the fair valuing of assets on the balance sheet (which would be covered in Baker Tilly's next report).

RESOLVED to approve the Financial Statements Audit Strategy for the financial year ended 31 July 2013

A/484 Audit Code of Practice

The Director of Finance introduced a report on the revisions to the Joint Audit Code of Practice for 2013/14. Through the AoC and the SCFA the agencies (the EFA and the SFA) are seeking comments on the proposed Joint Audit Code of Practice (JACOP) Part 2 from governors, principals and senior staff at colleges.

The agencies established a JACOP to enable them to rely on assurance from one another under the principle of "one learning provider, one funding assurer". Part 2 of the JACOP deals with the specific requirements for colleges' accountability and audit arrangements, and the broad framework in which they should operate. The agencies have revised it following the introduction of freedoms and flexibilities for colleges and the continued policy of reducing unnecessary bureaucracy.

For colleges the revisions to Part 2 reflect the outcomes of the SFA's Whole Provider View consultation on simplification that was undertaken with colleges last year. The agencies are also revising the Regularity Audit guidance to reflect changes in the sector and will seek views from the sector separately on that guidance. It is proposed that the revised Part 2 would apply from 1 August 2013. It would essentially allow Colleges to avoid the need for internal audit in the future. No-one was aware of anyone who wanted to do this.

The Director of Finance indicated that the issue is one for consideration and ties in with the work on Risk Management going forward. It was an initial discussion today and wider discussions would take place at future meetings. He was 100% confident that the internal audit arrangement the College currently has in place meets the requirements.

The Chair commented that it was an interesting suite of documents. He was amazed that the option is there. Internal audit has a primary role and provides Audit Committee and the Board of Governors with assurance. His view is it is a 'watching brief' and we should not depart from what we do now at this stage.

Paul Woolston of PWC thought internal audit was fundamental to control system and found the proposal strange at best. The notion that one provider would do internal audit is offending all the current thinking. He found it bizarre and strange.

A member questioned how you can do an internal audit without replacing it with something very similar. Claire Leece said internal audit process is a clear way to

Agenda No: 2

inform that. Robin Mackie commented that internal audit is an important part of continuous improvement. Any organisation not looking at higher rate of change was mad.

Katie Reeves commented that it would give more flexibility about what you require and the Director of Finance indicated that school academies are not required to have a formal audit and it was perhaps more intended for them.

The Chair concluded that it was important that the Committee had had sight of the documents and had discussed the proposal.

RESOLVED to note the contents of the report

A/485 Risk Management Plan

The Director of Finance introduced a report to which was appended the updated Risk Management Plan. He explained that the Plan had evolved over time with columns being added and deleted. The Plan was now embedded within the workings of the College.

The Plan has been reviewed by members of the Leadership Team and changes are highlighted in red and an indicative Risk Appetite (High, Medium or Low) has been given for Strategic Objectives, Accommodation Strategy and Financial Performance. On the right hand side of the Plan there is a status bar which indicates the current position on each risk as Red, Amber or Green. The Action Plan column shows target dates and lead responsibility. Some risks occur once and drop off the Plan whilst other remain all the time.

The Chair enquired whether as the Plan evolved the College would try to do some moderation. People doing assessments are using the same approach. The Director of Finance replied that there was a range of data from people in the College. The Chair said the Senior Management Team will look at the red areas; where things are deteriorating wider discussions will take place.

The Director of Finance said that the Risk Management Plan went to the Board once a year. It would be going to the Board meeting tomorrow and it would look forward to next year. A member wanted to know if some of the other risks should be assigned to other Committees to align with their remit. The Chair thought they could be sent to Chairs of other Committees.

A member enquired about income shortfalls and whether there needed to be an analysis of the risk factors identified. The Director of Finance said that pupil numbers were never certain and so the plan had to be updated four times per year.

The Principal commented that the Plan would be different if it was received in September as the funding position would be different and the Director of Finance is quite right to continually remind the Leadership Team of that. A recent discussion with the SFA indicated that they would find a way of paying the College if it picks up more adults (£1m per month) before the end of the year, but this would be too risky for the College.

RESOLVED to note the contents of the report

Agenda No: 2

A/486 Follow up of Audit Recommendations

The Director of Finance introduced a tracker document on the Audit Recommendations which he explained had been introduced this time last year. The recommendations are divided into Internal Audit, External Audit and Other. It is a 'live' document where things are added and things taken away. Katie Reeves of PWC said the document was used as a basis for validating that things are completed.

RESOLVED to note the contents of the report

A/487 Any Other Business

There were no items for discussion.

A/476 Date of the Next Meeting

The next meeting of Audit Committee is on Wednesday 16 October 2013 at 4.30pm.