

AUDIT COMMITTEE

WEDNESDAY 5 MARCH 2014



GATESHEAD COLLEGE

Report: Minutes of the meeting held on Wednesday 16 October 2013

Author: Clerk

Action: Approve

Status: Open

Present: Chris Macklin (Chair)
Darren Heathcote (Co-optee)
Neil Weddle (Co-optee)

In attendance: Karen Finlayson (PWC)
Claire Leece (Baker Tilly)
John Holt
Samantha Pritchard (Clerk)
Gwyneth Jones

A/489 Welcome/Apologies

Chris Macklin welcomed everyone to the meeting, in particular Darren Heathcote who had recently been co-opted to join the Audit Committee following the resignation of Vivien Shipley which had left the Committee inquorate. Apologies for absence were received from Robert Auty (PWC) and Peter Gray (Baker Tilly). The Chair asked everyone to introduce themselves.

The Chair invited members to declare any interests on any item on the agenda. 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.

The Chair updated the Auditors on some of the recent changes which had taken place in the College; Judith Doyle had been appointed as the new Principal on 31 July 2013 and the former Principal, Richard Thorold had formally retired on 1 August 2013.

The College had been in discussions with Middlesbrough College about the concept of a Federation arrangement. Dialogue had taken place during the summer and had concluded at an extraordinary Board meeting on Thursday 19 September 2013 where Governors had agreed on a Confederation. This arrangement would provide both colleges with the opportunity to develop new business but allow them to retain their independence.

The Director of Finance advised that it would be similar to a joint venture between the two colleges. The Chair said that as there was a significant distance between the colleges so they were not looking to engage with the same students. Each college had complementary strengths and the arrangement would build up the strengths of both. Karen Finlayson of PWC enquired when the Confederation agreement would become official and the Director of Finance replied that it was official now and press releases had been made available after the Board meeting in September 2013.

A/490 Minutes of the meeting held on 3 July 2013

The Director of Finance referred to page 1 and advised that under Matters Arising the wording was incorrect. It read that 'a dedicated Debt Controller had been appointed' and he said that the wording should be changed to 'would be appointed'. Following this amendment, the minutes of the meeting held on 3 July 2013 were accepted as a correct record.

A/491 Matters Arising

There were no matters arising which were not substantive items on the agenda.

A/492 Internal Audit Reports 2012/13

Risk Management

Karen Finlayson of PWC introduced a report of a review on Risk Management which had been undertaken from June to August 2013. She advised that this review had been done for a number of years and always achieved a good standard and low risk; this year's report was no exception. On comparing the College's risk register with nine other similar College Group's risk registers, they had found that nothing significant was missing and had identified some potential risks which were rated as 'advisory'. The only recommendation was for the College to consider whether the risks identified should be captured within the risk register. The Director of Finance confirmed that where relevant, the advisory matters had already been included on the College's risk register.

The Director of Finance explained that the Funding Data Service was going through a momentous change at the moment. As a result it cannot produce or validate the ILR files at the moment for all Colleges. It was noted that this failure is external to the College. In response to a question about software provider backup, the Director of Finance indicated that the College should submit the data every month but cannot submit it because it cannot be validated. When the system is working again there will be extra efforts required to get data submitted.

Karen Finlayson advised that the risks associated with the College's relationship with Middlesbrough College should be monitored to identify joint/shared risks.

RESOLVED to approve the contents of the report

Corporate Governance

Karen Finlayson of PWC introduced a report of a review on Corporate Governance which had been undertaken from June to September 2013 and was part of a review that was completed every three years. She advised that there had been no significant risks this year and it was classed as a 'low risk' report with no recommendations identified. The Chair commented that he found the row of 0's comforting and it was nice to see.

RESOLVED to approve the contents of the report

A/493 Internal Audit Annual Report 2012/13

Karen Finlayson of PWC introduced the Internal Audit Annual Report 2012/2013. The work was carried out in accordance with the internal audit plan approved by the Audit

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Committee in October 2012. The plan was constructed in such a way as to allow PWC to make a statement of the adequacy and effectiveness of the College's risk management, control and governance processes. It was noted that in PWC giving their opinion that assurance can never be absolute. The most that the Internal Audit Service can provide to the Corporation is reasonable assurance that there are no major weaknesses in the College's risk management, control and governance processes. In terms of Operational assurance, the Internal Audit Service had reviewed and evaluated the College's processes and had concluded that the policies, procedures and operations in place were all adequate.

During the year PWC had completed seven internal audits which had resulted in the identification of six medium, three low and one advisory risk findings to improve the adequacy and effectiveness of risk management, control and governance processes. There were no high risk findings identified.

During the year PWC has undertaken follow up work to validate the action taken by management against previously agreed actions. They concluded that of these, seven had been fully implemented, four were in progress with revised implementation dates assigned, and two were not yet due for implementation. Of those requiring further actions, all were medium risk rated.

The report included the results of the internal audit work conducted as well as a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning. The Audit Committee had agreed the 2012/2013 plan and to an input of 48 days in total. Additional to the programme of audits they also had 5 days in the plan to review the assurance mapping exercise undertaken by the College.

The College performed a stock take exercise to compile a list of recommendations raised by Internal Audit, in 2011/12 and 2012/13. In total there were 13 recommendations identified due for follow up by PWC. Their follow up work concluded full implementation of seven of these recommendations, with the remaining six requiring further action, having revised implementation dates assigned, or not yet being due.

Management have taken reasonable action to implement a number of recommendations raised in the current year. During 2013/14 PWC will follow up on the outstanding recommendations identified, as well as the findings raised in their 2012/13 reports which have not yet become due.

A workshop on Assurance Mapping with the Director of Finance and members of the College had taken place. This was an external piece of work.

Karen Finlayson thanked the Audit Committee and the Management for their help with the work and indicated that it had been another good year for the College. The Chair commented that the wording used in the report, 'adequate and effective' was as good as it gets. There were only 10 recommendations with only one advisory which is probably very low.

The Chair indicated that the College was exceptionally good on having that number of recommendations. He commended the Director of Finance and his team and the wider college on the performance. The Chair also thanked Karen Finlayson and her team for a good robust audit, good opinions and said it was a good result for the College.

RESOLVED to approve the contents of the report

A/494 Internal Audit Plan 2013/2014

Karen Finlayson of PWC introduced a draft Risk Assessment and Internal Audit Plan 2013/14. She ran through the approach to undertaking the risk assessment and preparing the internal audit plan. The process involved understanding corporate objectives and risks, defining the audit universe, assessing the inherent risk, assessing the strength of the control environment, calculating the audit requirement rating, determining the audit plan and other considerations such as external factors and risks.

The Strategic Audit Plan is based on the SFA's previous Joint Audit Code of Practice which set out the required annual and cyclical reviews to be included within a further education college's internal audit plan. The Joint Audit Code of Practice was recently updated and was released in August 2013. A key change in the Code is the removal of the mandatory requirement for further education colleges to appoint independent internal auditors and linked to that, a removal of the mandatory reviews which have to be undertaken as part of an internal audit programme.

A diagram representing the high level auditable units within the audit universe of Gateshead College was contained in the plan and these units formed the basis of the internal audit plan.

Each auditable unit had been assessed for inherent risk and the strength of the control environment and the risk assessment results were summarised in a table in the plan. Each unit was colour-coded and items marked red would be audited annually which would provide assurance to the external auditors. These would be Finance Systems and Payroll; Business, Innovation and Development; Contracts and Partnerships - this was a high risk. At the SFA yesterday, even after years sub-contracting it is one of the biggest concerns. The rest of the areas will be audited every 2-3 years.

The Annual plan and timetable set out the internal audit work planned for August 2013 – July 2014 together with indicative start dates for each audit. The audits would cover Gateshead College Foundation (November 2013); Funding and Student Records Management (February 2014) which was an area of risk for most colleges; International Activity (February 2014) was in the plan but no significant developments; Accounts Receivable and Accounts Payable (November 2013), Corporate and Social Responsibility (February 2014); Partnerships (April 2014) – relationship with Middlesbrough College.

The Director of Finance suggested that Business, Innovation and Development should replace the proposed International Activity and that Contracts and Partnerships should replace Partnerships to ensure there is enough of the core College activities coming through. Sub-contracts provision may replace International Activity.

A member thought that Health and Safety audits should be more frequent than every 3 years and this was also the case for Quality and Performance. Karen Finlayson commented that a lot of external assurance on Health and Safety does not necessarily come through on internal audit. The Director of Finance advised that an Annual Report on Health and Safety went to the Board. The Chair suggested that as well as the Annual Report to the Board, a mid-term report should go to the Audit Committee. Karen Finlayson said when looking at Health and Safety, they look at the processes in place and that they were receptive to having a view. The Chair suggested that Health and Safety should give an interim mid-term report and to build it into the plan for 2014/2015, not 2013/2014, instead of International Activity. There was a need to think

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about the number of days allocated to the audit of Partnerships if expanding to franchising, it should be changed to Strategic Partnerships (C4). Franchises and Sub-contractors should be audited instead of International Activity. Karen Finlayson said she would put a Health and Safety audit in for 2014/2015.

The Chair thought there should be a separate suite of audits on fraud and counter fraud. Karen Finlayson replied that if they found irregularities or anomalies they would definitely highlight them. A member thought it was necessary to be pro-active and clarified that the College did have a 'whistle-blowing policy'. He thought that the audit on the Gateshead College Foundation (November 2013) would be good for the Governing Body; he said he welcomed it and highly supported it.

Karen Finlayson advised that she would make the changes suggested and send the report back through to the Director of Finance.

RESOLVED to note the contents of the report

A/495 Financial Statements Audit year ending 31 July 2013

Claire Leece of Baker Tilly gave an oral report on the Financial Statement Audit Year ending 31 July 2013. She advised that she would be meeting with Judith Doyle on Tuesday 22 October 2013 where Judith would have to sign off the accounts for a year when she was not the Principal. The Chair enquired if they were making the Principal aware of her responsibilities and Claire Leece replied that they were giving her the assurance she needed to be able to sign them off. They will provide an update to the Joint Meeting of Audit and Finance and General Purposes Committees on Wednesday 4 December 2013.

It was noted that validation software was not available; every college will be sending in data at the same time so there was potential delay with 2013/2014 data. 2012/2013 data was fine and the final claim was submitted in September 2013. The Director of Finance advised that the deadline for ILR was now 25 October 2013; they would be giving out new allocations in 2013/2014 on the back of the October returns. Hopefully, it would be sooner rather than later. The Chair asked whether there were any gaps in the guidance or accounting principles. Claire Leece replied that there were no changes now but there would be in two years' time. The Chair advised that the auditors can ring the Director of Finance or himself in the run up.

RESOLVED to note the contents of the report

A/496 Follow up of Audit Recommendations

The Director of Finance introduced the updated audit recommendations report which is produced for each meeting. The recommendations are divided into Internal Audit, External Audit and Other. There were three recommendations from the external audit last year.

The Chair observed that the majority of audit recommendations were in green (Complete), a few were in amber (In progress) but he could not see any in red (Overdue). 'In progress' should be in completion date rather than 'red' eg March 2013 as there were a few of them. The Chair said that good progress was being made in terms of the previous recommendations. The Director of Finance said some of the IT recommendations were quite complex. The Committee noted the progress and the comments which had been made.

RESOLVED to note the contents of the report

A/497 Risk Management Register

The Director of Finance introduced a report to which was appended the updated Risk Management Plan. The Plan had been updated for 2013/2014 with the latest position on each risk and any new risks added including those suggested by PWC as part of their review of Risk Management. The risks linked back to the Strategic Plan which had 10 Strategic Priorities.

The Chair advised that the Board had spent quite a lot of time looking at the College's objectives, vision and plan. He indicated that he liked the RAG rating.

A member highlighted the risk 'failure to improve the College's efficiency, productivity and business agility by generating a saving of 10% from non-pay costs over 2012/13' and thought that expenditure on non-pay costs was a challenging target. The Director of Finance replied that the College were continuing to try and reduce non-pay costs. The Xerox contract is currently being reviewed and is expected to deliver some savings following an equipment refresh this autumn.

The Director of Finance talked everyone through the plan, saying that 16-18 looks good, the key is to achieve the right yield, the maximum number at 540 learning hours and £4,000 per head, with tapering provisions below that level of contact. It is critical to work towards full utilisation of funding. Historically, the College tended to engage with part-time students. There will be more money for the same number of students in the future as full time numbers increase. Adult FE (part-time) was a mixed bag with some that are good and some that have gone down. Full-time adult had seen the introduction of the new 24+ loans. A lot of Access to HE Provision had been removed and this meant that 200 full-time adults would not be coming to the College. This would be a loss of £3,000 per head, £600,000 in total. The new 24+ loans are attractive to people but the College is expecting a very low take up. HE recruitment is down 15% against target and Leadership and Management is down. There has been a downturn in FE even though the fees charged are lower. Skills support is going well with negotiations in place to increase support for the final year of the Project. Apprenticeships and adult unemployed is solid.

The Chair enquired if the audit around the Gateshead College Foundation would look at whether it is doing what it said it would do. He thought it represented a good tool for encouraging students who might otherwise drop out, to continue. Karen Finlayson replied that it would link to income rather than the governance side of it. It would be beneficial for the wider Governing Body to be aware of.

The Chair said the Risk Management Plan was an evolving document. It shows you that the Governing Body is aware of risks, RAG rating them and what you do about them. He looked forward to receiving an updated version of the Risk Management Plan at the next meeting in December 2013.

RESOLVED to note the contents of the report

A/498 Any Other Business

There were no items for discussion.

A/499 Date of the Next Meeting

The next meeting is a joint meeting of Audit Committee and Finance and General Purposes Committee on 4 December 2013. The next meeting of Audit Committee is on 5 March 2014.