

# AUDIT COMMITTEE



WEDNESDAY 11 JUNE 2014

**Report:** Minutes of the meeting held on Wednesday 5 March 2014

GATESHEAD COLLEGE

**Author:** Clerk

**Action:** Approve

**Status:** Open

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

**In attendance:** Robert Auty (PWC)  
Karen Finlayson (PWC)  
Peter Gray (Baker Tilly)  
Claire Leece (Baker Tilly)  
John Holt  
David Keetley (Observer)  
Emma Moody (Clerk)  
Gwyneth Jones

## **A/500 Welcome/Apologies**

Chris Macklin welcomed everyone to the meeting, in particular Robert Auty (PWC) who was attending his first meeting. He 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.

## **A/501 Minutes of the meeting held on 16 October 2013**

Neil Weddle referred to page 6 and said that his comments made at the last meeting had been misquoted. He requested that the wording should be changed to read 'that expenditure on non-pay costs was a challenging target'. Following this amendment, the minutes of the meeting held on 16 October 2013 were accepted as a correct record.

## **A/502 Matters Arising**

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

## **A/503 Minutes of the Joint meeting of Audit Committee and Finance and General Purposes Committee held on Wednesday 4 December 2013**

The minutes of the Joint meeting held on 4 December 2013 were accepted as a correct record.

**A/504 Matters Arising**

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

**A/505 Internal Audit Report – Accounts Payable Accounts Receivable**

Robert Auty of PWC introduced a report of a review on Accounts Payable and Accounts Receivable which had been undertaken from November 2013 to January 2014. This was the first review undertaken as part of the 2013/2014 internal audit plan approved by the Audit Committee and had focussed on the key financial controls that are in place within the College.

They identified one low risk finding which related to the College not carrying out credit checks on any companies, institutions or organisations prior to offering credit terms. They recognised that this issue is something that the College's financial management are aware of and are currently looking to address. They proposed that the College will look to carry out credit checks on its customers prior to offering credit terms. A threshold will be set whereby a credit check must be performed before offering credit to that company.

For three out of seven documents they tested there was no date of review noted on the document. Therefore they had been unable to verify that they had been subject to review within the last 12 months, which they understood to be the standard period for policy and procedure review in the College. They understood that the three exceptions were internal finance instruction documents, and had therefore not been put onto the College's Document Control system. The implications of this meant that policies in place are out of date, leading to staff working to the wrong guidelines and errors being made in the accounts payable and receivable cycles.

They had noted that, in the absence of the Director of Finance, the College's Financial Controller had deputised to authorise purchase orders and payment runs. They recognised that this was a robust alternative control that allowed the accounts payable and accounts receivable functions to continue to operate effectively during periods when the Director of Finance was on other business, however, they found that no formal documentation existed to provide this authority. The Financial Regulations state that all expenditure over £1,000 is authorised by the Director of Finance. They felt this was a low threshold in comparison to similar organisations. They proposed that the College will update its financial policies and procedures to document that the Finance Controller has the authority to deputise in the absence of the Director of Finance regarding authorisation of payments. They also suggested that the College will consider whether the approval levels for expenditure should be revised to facilitate decisions in relation to expenditure and free up the Director of Finance's time.

They had reviewed the College's debt recovery process and had noted that there were no clear guidelines for when, how, and how often outstanding debts should be followed up; this was currently based upon the knowledge, experience and intuition of the staff involved. They had seen no evidence to suggest that the current situation adversely impacted the efficiency and effectiveness of debt recovery at the College, however, there was a risk that if experienced and knowledgeable staff left or were unable to do the work for an extended period, the lack of documented deadlines could result in the reduction of effective debt recovery.

As part of the procedure, a list of student debtors is printed and reviewed on a monthly basis to identify those debts which are not being paid and require follow up action. Only the current month's list is retained, with lists from prior months being disposed of.

## **Agenda No: 2**

They recommended that lists are retained on file for at least one year to allow for future reference and to evidence the control for audit purposes. They recognised that the College is planning to replace its current Finance system in August 2014 and that this should lead to improvements in the Debt Management process.

A member commented that the credit offer was low. The Director of Finance replied that most of it was student debt; £5,000 paid for by the Student Loan Company. They could not really credit rate the students but company debt was generally quite small.

A member asked if there were any plans to increase the threshold for approval and David Keetley, Financial Controller replied that they needed to think about that. The member wondered if there would be different thresholds for purchase orders and payment runs as the threshold for payment runs would be typically higher.

The Chair thought that the delegation thresholds needed to be reviewed in the interests of operational efficiency.

A member asked about the letters for financial approval and the Director of Finance replied that the Finance and General Purposes Committee approved the financial regulations. The Chair said that it was important for them to be kept up-to-date as they formed part of the internal controls.

The Director of Finance said that big changes were planned re: a new finance system planned for summer 2014.

### **RESOLVED to note the contents of the report**

#### **A/506 Internal Audit Progress Report to February 2014**

Karen Finlayson of PWC introduced the Internal Audit Progress Report to February 2014. The report included the work which had been carried out in accordance with the internal audit plan approved by the Audit Committee in October 2013. To date only one review, Accounts Payable and Accounts Receivable had been completed.

She referred to a table in the plan which showed the scheduled timing of the remaining audits and advised that some of the dates were incorrect; they should be April 2014 and July 2014 and not 2013 as listed.

The Chair confirmed that fieldwork for the reviews on the Gateshead College Foundation and Subcontractor management was underway and acknowledged that the first report had been completed.

### **RESOLVED to note the contents of the report**

#### **A/507 SFA ESF Skills Support for the Unemployed Audit**

The Director of Finance introduced a report on the Audit which had been undertaken by the SFA on the £7m Skills Support for the Unemployed Project. He explained that the sample size was £32,750, out of a population of £3,669,950, with any error in the sample being potentially extrapolated to the entire population, resulting in a funding clawback. The Audit had identified no errors leading to a 0% error rate, and, therefore, gave a very satisfactory opinion.

The Chair commented that to get a 0% error rate on a sample of that size was an excellent result and congratulated John Holt and David Keetley for this outcome.

**RESOLVED to note the contents of the report**

**A/508 Regional Growth Fund Annual Audit Year to 31 December 2013**

The Director of Finance advised that the College had received a clean audit report from Baker Tilly re: the Regional Growth Fund.

Claire Leece of Baker Tilly explained that they had picked a sample in accordance with the guidance. The sample chosen related to a £6 million total spend and there were no exceptions to note or report which was quite rare.

The Chair commented that the £6 million was made up of varying sizes and to have nothing to put into the report was an achievement. He expressed his congratulations to John Holt, David Keetley and the Finance Team for this result.

**RESOLVED to note the contents of the report**

**A/509 Risk Management Plan**

The Director of Finance introduced a report to which was appended the updated Risk Management Plan. The Plan had been updated 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 Director of Finance talked everyone through the plan highlighting the risks marked as red. He referred to the first risk under Strategic Objectives the 'Failure to achieve HE recruitment targets and HEFCE and franchised funding allocations'. The Chair asked if this risk was picked up at other Committees and the Director of Finance replied that it was reviewed at the Finance and General Purposes Committee.

A member enquired about the financial implications regarding cumulative and overall impact and the Chair replied that these were also discussed at the Finance and General Purposes Committee.

A second risk under Strategic Objectives was 'Failure to raise OfSTED gradings from Satisfactory to at least Good at the next Ofsted visit'. The recent inspection had recognised that significant progress had been made but there had not been enough measurable impact in certain areas; the threshold had moved up a lot from last time but when Ofsted inspected they came six months too early and so the College remained as a grade 3.

The Clerk said that the Board meeting on 27 March 2014 would be dedicated to Ofsted feedback and comprehensive review of business. A member said that the findings would also be discussed at the Academic Standards Committee. The Clerk reminded members that the College had the opportunity to invite Ofsted back in before the next due date and the Chair confirmed it would be the Governing Body who would invite them.

A third risk is the 'Failure to achieve adequate level of 19+ funding'; the SFA are reducing non-apprenticeship funding and increasing apprenticeships but at a slower rate, leading to an overall cut. The College will have to rapidly grow apprenticeships just to stand still overall or manage a decline. Recent SFA announcements indicate that another 19% will be cut over the next two years. The SFA use the forecast at the end of the year for next year's allocation. The SFA view Gateshead College as consistently consistent in its forecast.

## **Agenda No: 2**

The Chair said that the College had a track record in overachieving and asked if it would target where the cut was made. The Director of Finance replied that he had targeted £3 million apprenticeships which had increased to £3.5 million (less than 19%) whilst £3 million adult reduced to £2 million (more than 19%) to offset. The Chair thought the College could pride itself on being ahead of the game. The Director of Finance indicated that the situation would be monitored by the Finance and General Purposes Committee.

A fourth risk under Strategic Objectives was the 'Impact of Government Funding cuts to bring the national budget back under control, together with imposed efficiency savings'. The squeeze on funding is on-going and accelerating, the College is prioritising 16-18 and apprenticeships to try and minimise the impact going forward.

The Director of Finance mentioned a risk under Human Resources which was 'Ineffective staff utilisation'. He said that this was an on-going issue but Heads of Groups were being encouraged to utilise under deployed staff to do something positive for the students.

A member asked from a practical point of view who was responsible for the risks. The Clerk replied that it was a case of getting risks fed back to the right places so that actions were being taken and progress reviewed. She explained that the red areas ought to all come back to the Board under the new way of reporting so as to ensure effective and transparent reporting. The Chair said that anything red should go to the Board; as should confirmation of what was being done to mitigate the risk (rather than just the risk itself).

Karen Finlayson of PWC enquired whether the Board gets all the risks and the Director of Finance replied that the strategic ones went to the Board once a year at the July meeting.

### **RESOLVED to note the contents of the report**

#### **A/510 Audit Recommendations – Follow up**

The Director of Finance introduced the updated audit recommendations report which is produced for each meeting. He said that most recommendations were 'Complete' and the others were 'In progress'.

All the External Audit Recommendations from 2012 had been dealt with and there were no new ones from 2013.

The Chair commented that a few were 'in progress' which was typical in a progress report.

### **RESOLVED to note the contents of the report**

#### **A/511 Any Other Business**

There were no items for discussion.

#### **A/512 Date of the Next Meeting**

The next meeting of Audit Committee is on Wednesday 11 June 2014 at 4.30pm.