

AUDIT COMMITTEE

WEDNESDAY 8 OCTOBER 2014



Report: Minutes of the meeting held on Wednesday 11 June 2014

GATESHEAD COLLEGE

Author: Clerk

Action: Approve

Status: Open

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

In attendance: Robert Auty (PWC)
Claire Leece (Baker Tilly)
John Holt
Emma Moody (Clerk)
Gwyneth Jones

A/513 Welcome/Apologies

Chris Macklin welcomed everyone to the meeting. Apologies for absence were received from Judith Doyle, Karen Finlayson (PWC) and Peter Gray (Baker Tilly).

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/514 Minutes of the meeting held on 5 March 2014

The minutes of the meeting held on 5 March 2014 were accepted as a correct record once the following amendment was made.

Robert Auty of PWC referred to page 3 under Internal Audit Progress Report to February 2014 and said that the wording need to be amended to read 'The Chair confirmed that fieldwork for the reviews on the Gateshead College Foundation and Subcontractor management was underway' and not for Strategic partnerships as had been recorded in the minutes.

A/515 Matters Arising

A/505 Internal Audit Report – Accounts Payable Accounts Receivable

The Chair referred to page 3 and enquired about progress with the new finance system planned for summer 2014. The Director of Finance replied that the plans had been postponed until January 2015 as it was taking longer than anticipated. The Chair then asked about delegation thresholds and the Director of Finance said that a revised version of the Financial Regulations would be taken to the next Finance and General Purposes Committee meeting on 26 June 2014.

A/516 Internal Audit Report – Subcontractor Management

Robert Auty of PWC introduced a report of a review on Subcontractor Management which had been undertaken from April 2014 to June 2014. They had reviewed a sample of subcontracts which the College has with CableCom, Penshaw View Training and Nissan by looking at how performance was monitored, ensuring roles and responsibilities were defined and that quality reviews were undertaken.

They identified one low risk finding which related to the College not formally documenting the roles and responsibilities, such as lead responsible officer. They proposed that the College may wish to consider including roles and responsibilities within the contracts such as lead responsible officer and finance officer. They had found this to be generally a very positive report.

A member referred to the wording in the recommendation and Robert Auty replied that it was an advisory finding not a risk. The Clerk clarified that it would depend on what the obligations were of both parties in the contractual arrangements and whether or not we needed a stronger legal foundation against which to hold contractors to account.

RESOLVED to note the contents of the report

A/517 Internal Audit Report – Foundation

Robert Auty of PWC introduced a report of a review on Gateshead College Foundation (GCF) which had been undertaken from April 2014 to June 2014. The purpose of the audit was to review the Governance arrangements around the Foundation which included reviewing the Articles of Association of GCF and the College Board Approval; GCF board minutes, fundraising reports to the GCF board; the bursary assessment process for 16-18 and 19+ students; and a sample of payments to students.

During the course of their review they found that there was an appropriate level of College board discussion and approval of GCF at its inception; regular termly monitoring of GCF by its Board; bursary payments being withheld where poor attendance had been identified; and detailed proposals in place to re-launch and raise the profile of GCF.

They identified one low risk finding which related to the frequency of management level meetings being reviewed and outputs from these meetings to the frequency of monitoring activities being produced, such as an action plan and monitoring performance against key performance indicators.

Strategic level monitoring of the Foundation is conducted termly by the Board. The Director of Marketing and Communications meets informally each week with the part-time fundraiser. These meetings are informal and are not currently minuted. Monthly formal minuted meetings at management level are not currently held. Under the proposed new structure the Steering Group will meet monthly to encourage wider involvement by stakeholders within the College.

The Chair commented that from the perspective of the wider Governing Body the report gave a clean bill of health in terms of governance arrangements for the Foundation.

RESOLVED to note the contents of the report

A/518 Internal Audit Progress Report to June 2014

Robert Auty (RA) of PWC introduced a report indicating progress against the Internal Audit Plan for 2013/2014 which had been approved by the Audit Committee in October 2013. To date this has included completion of three reviews Accounts Payable and Accounts Receivable, Subcontractor Management and the Gateshead College Foundation. He advised that the Funding and Student Records review would be commencing very shortly, the Corporate Social Responsibility review would be commencing in the next week or so and he advised that Management had requested the deferral of the Strategic Partnerships until the next academic year. He asked members how the days assigned for this review could be utilised.

Claire Leece (CL) of Baker Tilly referred to page 32 of the External Audit Plan 2014 entitled 'Emerging Issues' which listed some key issues currently affecting the sector and details of recent developments. She referred to problems with the SFA Software which had been highlighted and raised by the Director of Finance. The software was intended to be operational in August 2013 but had not been fully operational until spring 2014.

CL referred to the area of Performance and Capability of EFA and said they were shedding staff so resource was limited and stretched. With the growth of academies and the high profile issues being identified the Agency will focus less on colleges unless intervention or concerns are raised through its monitoring processes. This less rigid approach to a mature sector will place more emphasis on college governance.

CL referred to Increased Deficits in Local Government Pension Schemes and said they would wait and see what the figures look like but it was not today's issue. She also mentioned the VAT – Rulings which had been released re: Brockenhurst College and Wakefield College.

CL mentioned Corporate Identity Fraud as an increasing area of risk for the College. Supplier organisations can mitigate the risk by undertaking validation and checks.

The Chair suggested that the banked days on the Audit Plan could be used for VAT and Corporate Identity Fraud. Fraud Awareness Training would not just involve the Finance Team but could be extended to the wider College. He thought it would be good to be seen as being more proactive. The Chair said that two or three days could be spent putting together a workshop.

RESOLVED to note the contents of the report

A/519 External Audit Plan 2014

Claire Leece of Baker Tilly presented the External Audit Plan for the year ending 31 July 2014 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. She said that the accounts would be signed off at the Board meeting in December 2014.

She advised that they had been asked by the College to provide an independent reasonable assurance report in connection with the Teachers' Pensions Return for the year ended 31 March 2014.

She outlined that the key risks affecting their audit plan were Income Recognition. The Pension Deficit is based on information from an actuary and there is a risk that the

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amount may be materially misstated where the data and assumptions used are not appropriate. The Regularity Review included tightening up procedures about Overseas Travel which had been looked at two years ago.

Financial Health and Going Concern will be considered up until December 2015. This work will include consideration of the management's review of covenants in relation to the College's borrowings to confirm that there is no indication of breaches being anticipated.

Fixed Assets – Capital Developments - During the year a significant proportion of the cost in the investment on the Test Track and Low Carbon Vehicle Research & Development Centre projects was met through grant funding. They will review the documentation to ensure expenditure and related grants have been accounted for appropriately.

Management override of controls – there is a risk that controls that were thought to be in place have been overridden by management. Significant journal entries, management judgements and estimates, and any significant transactions will be reviewed.

Accounting group structure and subsidiaries – They will need to confirm the legal and accounting position in respect of the group and financial results and balances at 31 July 2014 so that they can determine the exact scope of audit work required and the impact on the College's financial statements. The diagram showed the activity going on within the group structure and listed the dormant entities which had been hived up into the College.

CL explained that the fees were comparable to last year although some work had come out; Amacus Limited could be very influential. CL said that they would hold the fee at last year's level.

She advised that there were no matters brought forward from the previous year and there had been no changes to their audit team.

The level of materiality was an agreement to a level of any errors the College wants reporting back and an appropriate level would need to be agreed. The Director of Finance asked what would be appropriate and CL said that it was currently £2,000. The Chair suggested raising this to £4,000 with a direction of travel of £5,000 for next year.

They should be informed about any frauds that they need to be aware of and this should be embedded throughout the organisation. The Clerk asked about the definition of fraud, was it financial or anything else. CL referred to anything which had an impact on the Financial Statements anything which went to the proper use of the College's funds.

She referred to the Financial Reporting Developments section and said the new SORP would impact on covenants going forward, however, Gateshead College should not be penalised for that. Russell Briggs, based in Leeds, will be the Barclays Relationship Manager for all the colleges.

Following changes introduced by the regulators and the relaxation of funding bodies controls most operating restrictions have been removed from the FE sector. This has meant the previous Regularity Audit Approach and related opinion is no longer

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appropriate. They are currently in discussions with the SFA to determine the shape of any future regularity assurance. When they know more they will be reporting back.

It was noted that the Charity reporting changes are unlikely to impact upon many colleges.

The Chair commented that he was comfortable with the sense of the direction of travel.

RESOLVED to note the contents of the report

A/520 TPA Engagement Letter

Claire Leece of Baker Tilly explained that this was a standard letter and she just wanted the Committee's agreement to it; the Chair replied that he was happy to sign off the letter.

RESOLVED to note the contents of the report and approve the engagement letter

A/521 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 included those suggested by PWC as part of their review of Risk Management.

He talked everyone through the plan highlighting the risks marked as red.

He referred to the first risk under 'Strategic Objectives' which related to the 'Failure to achieve the combined Adult Learner Responsiveness, Train to Gain and Apprenticeship Target;' this target was up on last year but they had not been able to deliver it. Another risk was the 'Failure to achieve HE recruitment targets and HEFCE and franchised funding allocations' as there had been underachievement on HE numbers. 16-18 has been strong but there would be a smaller allocation for next year.

They are falling short on full cost work and will not catch up. International work has begun to generate income from a £300,000 contract in Malaysia to manage the Edu-city Sports Complex and they have received their first payment.

Another risk was the 'Failure to achieve an adequate level of 19+ funding' and recent announcements from the SFA would indicate that another 19% will be cut over the next two years.

He referred to a risk under 'Human Resources' which related to the 'Ineffective staff utilisation' and said a lot of work had been done on this on the Business Plan this year.

The Chair commented that a number of 'red risks' were linked to financial health and management and presumed that the Finance and General Purposes Committee were looking at this. The Director of Finance replied that the Finance Committee looked at this every month.

He explained that funding targets were discussed at every Leadership Team meeting. A Governor asked if each one of the risks was reviewed by the SMT and the Director of Finance replied that they were.

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The Clerk said that the Governance and Search Committee were looking at template reports in the new quadrant structure and the impact that each report on a proposed item of business to the Board would have on the Risk Register.

RESOLVED to note the contents of the report

A/522 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 in the green 'Complete' column.

He referred to the 'Key Financial Controls' and explained that the work was still ongoing for the review of debtor controls.

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The Chair commented that progress had been made on the recommendations and where they were 'in progress' this was linked to changes.

RESOLVED to note the contents of the report

A/523 Any Other Business

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A/524 Date of the Next Meeting

The Chair suggested that the date of the next meeting of Audit Committee should be on Wednesday 15 October 2014. [This date was later changed to Wednesday 8 October 2014 at 4.30pm].