

**AUDIT COMMITTEE  
MINUTES OF MEETING 82 HELD ON 24 NOVEMBER 2014**

**Present:** Philip Wright (Chair), Adam Jennison, John Shipley

**In attendance:** Lesley Hill (E. Coast Audit Consortium, internal auditors), Bill Jackson (Director of Network & Information Systems), Anna Lamplough (Director of Finance), Richard Lewis (Baker Tilly, financial & regularity auditors), Lee Oliver (KPMG, EFA/SFA funding assurance auditors), Jay Trivedy (Principal)

**Clerk:** Fiona Bagchi

**82.1 Apologies for absence**

*Apologies were received from Committee members, John Gilleard and Martin Longbottom.*

**82.2 Declaration of interests**

*The following standing declarations were received:*

Adam Jennison (employee, Kingston upon Hull City Council) and John Shipley (Councillor, Kingston upon Hull City Council).

**Funding assurance review**

**82.3 Funding Assurance Review Report**

Lee Oliver of KPMG (Skills Funding Agency (SFA)/ Education Funding Agency (EFA) funding assurance auditors) presented the funding assurance review report.

Members noted that:

- The College had been chosen for a funding assurance review, which had taken place during Sept. 2014;
- 3 reviewers had spent 3 days in the College, undertaking substantive testing (as prescribed in the assurance review programmes issued for 2013/14) on a sample of 80 EFA-funded learners aged 16-18 and 17 SFA-funded adult learners selected from the College's ILR;
- The reviewers also ran and examined Provider Data Self Assessment Toolkit (PDSAT) reports and requested management to provide evidence and explanations, where necessary;
- The review also considered whether the College was delivering in 2013/14 English and Maths provision according to the EFA's funding rules effective from 2014/15 and whether, as part of the College's contract with the SFA, it was complying with European Social Fund (ESF) match-funding requirements relating to policies, data, learner notification, the use of logos and document retention.

Observations arising from the following areas were reviewed in detail: learning agreements/enrolment forms; study programmes; English and Maths (EFA provision); attendance evidence; learner eligibility; ESF match funding; PDSAT.

Members noted in discussion that action had been taken in relation to all recommendations arising from the above observations or was outlined in the management responses in the report, with the following exception: action to be taken in relation to the retention of documents falling under ESF retention guidelines, which required documents to be retained until Dec. 2022. It was noted that the College's overall document retention policy was in line with the Information Commissioner's guidelines (i.e. 6 years) and that as the College had only

a small number of SFA-funded adult learners (i.e. 17 learners in 2013/14) who fell within the ESF guidelines, the Director of Network and Information Systems was proposing that it would be appropriate to make separate document retention arrangements for these students.

It was noted in response to members' questions concerning one learner identified where English and/or Maths GCSE had not been included within their 2013/14 study programme, although the learner had been deemed to require such provision, that further checks had been carried out through tutors for students in the 2014/15 cohort, with some having been enrolled to GCSE Maths or GCSE English as a consequence.

The following funding implications arising from the review were noted:

- With reference to attendance, one adult learner should have been recorded in the ILR as having withdrawn, with the following funding impact - £291 (SFA funding);
- With reference to learner eligibility, 2 adult learners aged 24+ years and 3 overseas learners had been identified as ineligible for funding, with the following funding impacts - £728 (SFA funding) and £12.8k (EFA funding), respectively.

Members noted that the overall outcome of the review had, however, been a clean audit opinion.

It was noted that, in addition to the main audit reviews noted in the report, the reviewers had also undertaken some subsidiary testing of controls relating to EFA-funded student bursaries. Of evidence for 15 learners in receipt of such funding reviewed, eligibility evidence was lacking for 5 students. KPMG would submit a return to the EFA on the review, with a likely funding implication of around £3K. It was noted in discussion that a similar observation had arisen from Baker Tilly's 2013/14 regularity audit review and it was noted, in response to members' questions, that this issue had been addressed by the implementation of a more robust records retention system.

***The Committee received the report on the SFA/EFA funding assurance audit undertaken in Sept. 2014, noting that the overall outcome of the review had been a clean audit opinion and that appropriate actions had been agreed by management to address observations arising from the report.***

The Chair congratulated the Director of Network and Information Systems on the overall outcome of the review and thanked Lee Oliver for his report.

(Lee Oliver left the meeting).

## **Minutes & matters arising**

### **82.4 Minutes of meeting held on 13 October 2014**

(Lesley Hill of the East Coast Audit Consortium arrived during this item).

***The minutes of 13 October 2014 were approved with the following amendment:  
81.4(ii) 8 should state that "the Deputy Principal and the Director of Finance had joint overall responsibility for infrastructure, including IT and estates".***

**Action: Clerk**

### **82.5 Matters arising and action table**

(Matters arising below are numbered according to their position in the Action Points table appended to the end of the minutes of the previous meeting. The reference to where the action can be found in the minutes is given in brackets at the end of each item).

- 1 The June 2014 minutes had been amended, as agreed (81.4 (i)).
- 2 Adam Jennison had provided an example of a lessons learnt report which the Clerk would adapt for use by the College (81.4(ii)).

**Action: Clerk**

- 3 It was agreed that as the College's risk management system had been revised, the action for Adam Jennison to observe a Risk Management Group meeting was no longer relevant and should be removed from the action table (81.4(ii)).

**Action: Clerk**

- 4 The College's completed Financial Management Control Evaluation (FMCE) for 2013/14 was on the agenda (81.4(ii)).

- 5 It was noted that the Dec. 2014 would be the first time that colleges' annual Audit Committee reports would have to be submitted to the EFA (81.4(ii)).

- 6 The funding assurance report had been considered earlier on the agenda (81.4(ii)).

- 7 The College had developed a more strategic and focussed risk management system. A report would be considered later on the agenda (81.4(ii)).

- 8 It was agreed that the College's senior management team (SMT) would review and update the assurance map during spring term annually, as required, presenting the map to the March meeting of the Committee (81.4(ii)).

**Action: SMT**

The Audit Committee would review the assurance map annually at its March meeting to enable it to fulfil its responsibility to advise the Corporation on the adequacy and effectiveness of the College's assurance framework to inform planning for the following academic/financial year. The review would include an initial discussion of the development of an internal audit plan for the following year (81.4(ii)).

**Action: Clerk**

The Committee would consider at its Mar. 2015, the need for the format of the assurance map to be developed for presentation to Corporation e.g. the inclusion of a Red-Amber-Yellow-Green (RAG) rating (81.4(ii)).

**Action: Clerk/AL**

It was noted that it had been agreed that the strategic risk register should be reviewed by the College's senior management team (SMT) half-termly and by the Audit Committee termly. The first review of the revised strategic risk register was on the agenda (81.7).

- 9 The assurance map and the draft internal audit plan would be presented to Corporation in December 2014, as agreed (81.4(ii)).

**Action: Clerk/Chair**

- 10 The rolling implementation plan of internal auditors' recommendations was on the agenda (81.4(ii)).

- 11 Baker Tilly's audit findings report was on the agenda and included a review of recommendations arising from the 2012/13 financial statements audit (81.4(ii)).

- 12 The Director of Finance would use CIPFA model financial regulations when revising College's financial regulations in January 2015 (81.4(ii)).

**Action: AL**

13 The Chair would sign the amended financial statements auditor performance checklist.  
(81.4(ii)).**Action: Clerk/Chair**

14 Audit Committee minutes released from confidentiality would be added to the College website (81.5).  
**Action: Clerk**

15 A further review of the Oct. & Dec. 2013 minutes not released from confidentiality would be reviewed in Oct. 2015 (81.5).  
**Action: Clerk**

16 The Committee's annual report was on the agenda (81.11).

17 With reference to the 2013/14 internal audit performance checklist, Richard Lewis of Baker Tilly, the College's financial statements and regularity auditors confirmed that they discussed matters with ECAC, where appropriate, and took their reports into account. It was noted that the financial auditors were no longer expected to "rely" on the work of the internal auditors, as had been the case under the previous audit regime (81.12).

18 The Committee's recommendation on the re-appointment of ECAC for the 2014/15 internal audit would be made at Corporation's Dec. 2014 meeting (81.12).  
**Action: Clerk/Chair**

19 The Chair would sign the completed internal audit performance checklist (81.12).  
**Action: Clerk/Chair**

20 It was noted that the internal auditors had previously reviewed payroll in Feb. 2013, with the review resulting in a Substantial Assurance opinion (81.13).

21 The Committee's recommendation on the draft internal audit plan 2014/15 would be made at Corporation's Dec. 2014 meeting (81.13).  
**Action: Clerk/Chair**

22 It had been agreed with the ECAC that, if the draft internal audit plan 2014/15 was approved, the staff member doing the Follow Ups review would not have undertaken the original review (81.13).  
**Action: LH of ECAC**

### **Rolling implementation plan**

#### **82.6 Rolling implementation plan of internal audit recommendations**

The Committee meeting received the rolling implementation plan of internal audit recommendations, noting that:

- Recommendations arising from the 2012 treasury management review had been noted as completed in the ECAC's Follow Ups review at the Committee's June 2014 meeting;
- The final recommendation arising from the 2013 equality and diversity review was noted as having been completed in the current update to the plan;
- Recommendations arising from the 2014 enrolments and tuition fees/fee remission review were shown as having been completed, with it being noted that a more robust system has been implemented to ensure that applications for discretionary support

- funds were scanned and records held electronically;
- Recommendations arising from the above 2013 and 2014 reviews would also be considered during the 2015 Follow Ups review.

Members noted, with reference to action taken in relation to the retention of discretionary support funds records, that similar recommendations had arisen from the bursaries review undertaken by the EFA's funding assurance auditors and from the regularity audit undertaken by Baker Tilly. It was noted that, in addition to the implementation of an improved system for the retention of records, the College's bursary and support fund policy was updated annually and would be presented to Corporation for approval in 2015.

**Action: Clerk**

***The Committee received the rolling implementation plan of internal audit recommendations, noting that all outstanding actions had been completed.***

### **College: annual reports**

#### **82.7 Annual report on data protection & freedom of information**

The Director of Network & Information Systems, Bill Jackson, presented the College's 2013/14 Data Protection and Freedom of Information (FOI) report.

Members noted:

- There had been no reported Data Protection incidents in 2013/14;
- The College continued to inform all new staff of their responsibilities under the Data Protection Act at induction;
- The range of FOI requests received by the College since Sept. 2013, which had all been responded to within the 20 working day deadline.

In response to members' questions as to whether publishing more information on the College website could reduce the number of FOI requests, it was noted that the College's 2013/14 financial statements would be published on the website, as required by the Accounts Direction, following approval and submission to the EFA.

***The Committee received the College's 2013/14 Data Protection and Freedom of Information (FOI) report.***

#### **82.8 Annual report on risk management & risk register**

The Director of Finance, Anna Lamplough, presented the annual risk management report and revised risk register.

Members noted that:

- The Director of Finance had attended the Risk Management Sub Group meeting in May 2014 and recommended that the risk register should be streamlined and refined;
- A workshop on Risk Management had been held in September 2014, facilitated by the ECAC, and attended by all members of SMT and the Chair of the Audit Committee;
- Following the above workshop, 8 strategic risks were identified i.e. results (maintaining the quality of outcomes), student experience (well being), staffing (engagement, performance & recruitment), recruitment (students), financial viability, infrastructure, external factors, governance & leadership;
- A member of SMT had been assigned to each risk and tasked with compiling an individual Risk Register for each of the eight areas above, whilst cross-checking to the original Risk Register to ensure that all existing risks had been captured;
- A simplified scoring matrix had been presented at the workshop and it had been agreed that this would be used in future for scoring risks on the Risk Register;
- Risks scoring 12 or above (high and very high risk) would be escalated to a Strategic Risk Register;
- Individual Risk Registers for the 8 strategic risk areas had been compiled by members

- of SMT and discussed and challenged at two SMT meetings in Nov. 2014;
- The register would be reviewed by SMT twice a term.

The Committee commended the changes made to the format of the Risk Registers, noting the high risk areas on the Strategic Risk Register and additional controls necessary to bring the risk scores down to more acceptable levels, where appropriate.

Members noted in discussion that:

- The new streamlined risk register was more focussed on key risks than the previous register;
- The use of a Red-Orange-Yellow-Green scoring matrix clearly highlighted for readers the current and target risk scores;
- The highest score currently shown in the registers was Orange;
- The use of the SMT to monitor the registers was more appropriate than the Risk Management Sub Group, which had met annually, and should allow a more timely response to emerging risk

It was noted in response to members questions:

- With reference to how the College would monitor a risk which had moved quickly from a lower to a higher score, that, as this was the first version of the new register, risk trend was not shown but would in future be indicated in the Risk Trend column;
  - With reference to whether SMT would challenge whether appropriate controls were in place to manage risks, that the effectiveness of controls in the Additional Controls column would be regularly monitored by SMT members at subsequent reviews of the register;
- With reference to the College's risk management policy, that this had last been approved in 2011 and would be revised and presented to the Corporation for approval in 2015.

**Action: AL/Clerk**

***The Committee received the College's 2013/14 risk management report and the revised risk register, noting the improved format and more focussed approach. It was agreed that the strategic risk register should be presented to each meeting of the Committee and that the full register should be presented to the Committee annually at the Committee's first autumn term meeting.***

**Action: Clerk**

***The Committee agreed that the strategic risk register should be presented to Corporation.***

**Action: Chair/Clerk**

## **82.9 Annual report on fraud, bribery, irregularities and whistleblowing events**

The Director of Finance presented the College's 2013/14 report on fraud, bribery, irregularities and whistleblowing events.

Members noted that:

- There had been 3 instances of irregularity during 2013/14, 2 of which related to thefts and one of which related to the delivery of equipment (*confidential minute*);
- The police and the internal and external auditors had been informed of both instances of theft.

The Committee's November 2014 meeting noted that action taken by the Director of Finance to mitigate the risk of future re-occurrence included the implementation of ParentPay and a cashless catering system; a system of two people counting and recording cash; changing the finance office lock; the implementation of improved procedures for the storage and receipt of parcels.

***The Committee received the College's 2013/14 report on fraud, bribery, irregularities and whistleblowing events, noting that mitigating action taken in response to the 3 instances of irregularity noted were considered appropriate and sufficient.***

#### **Financial controls reports**

##### **82.10 Review Statement of Internal Financial Control Checklist**

The Committee received the College's draft Statement of Internal Financial Control Checklist, which had been reviewed for the financial year ended 31.7.14, noting in discussion that:

- The Director of Finance had reviewed the Evidence column;
- The "Actions identified for 2014/15" highlighted actions to be taken during the current financial year to enhance control;
- The draft Checklist had been presented to the Committee to allow discussion before it was signed by the Principal.

It was noted that, as ~~that~~ no further additions to the College's Statement of Internal Financial Control Checklist for the financial year ended 31.7.14 had been identified in discussion, the version of the Statement presented was therefore the final version and would be signed by the Principal.

**Action: Clerk/JKT**

***It was agreed that the College's annual Statement of Internal Financial Control Checklist should be added to the College's Assurance Map, as a source of Management assurance, at the annual updating of the College's Assurance Map.***

**Action: AL/Clerk**

***The Committee received the College's Statement of Internal Financial Control Checklist for the financial year ended 31.7.14, noting that it was a source of assurance on internal control which contributed to the annual assurance opinion of the Audit Committee.***

##### **82.11 Review Financial Management Control Evaluation (FMCE)**

The Committee considered the College's draft self-assessed 2013/14 Financial Management Control Evaluation (FMCE), which included assessments of the following areas: accountability arrangements (strategic and operational oversight); financial planning arrangements (long and short term); internal control arrangements (risk management, internal control system); financial monitoring arrangements.

Members considered the improvement plan arising from the FMCE and discussed whether it should include a possible action relating to training to enhance the financial expertise in the finance department, which would allow the Director of Finance to focus more on strategic matters and the non-financial aspects of her role e.g. estates. It was noted that the finance team currently comprised the Director of Finance (who was a qualified accountant), an assistant accountant and a finance assistant. Finance training courses which might be relevant in this context were discussed in general e.g. A Levels, AAT or CIPFA qualifications. It was also noted, in general, that such training, where offered, required commitment from both the employer and the employee. It was agreed that the inclusion of a specific action in the 2013/14 FMCE improvement plan would not be appropriate, as further discussion was required. An action relating to the finance team and training had been included in the financial management processes and controls report action plan which would be considered later on the agenda.

It was noted in response to members' queries concerning Question 9 in the section on short-term financial planning, which concerned whether the College budget was underpinned by a detailed system of course costing and contribution analysis, that the former Director of Finance had produced an initial course-costing model which the Clerk would forward to the current Director of Finance, for information.

**Action: Clerk**

It was noted in response to members' questions concerning course-costing generally that, in making curriculum decisions, the College took into account issues relating to financial sustainability and educational considerations.

Members noted, with reference to the overall self-assessed grade, that the evaluation related to the 2013/14 financial year as a whole and that the College was proposing that, in this context, an Overall Grade of Satisfactory was appropriate. External evaluations of the College's leadership and management generally and of financial management and control arrangements specifically were considered e.g. the Leadership and Management grade of Good awarded by Ofsted at inspection in Sept. 2013, the outcome of the financial management processes and controls report commissioned from an independent consultant in Nov. 2013 (see item 82.12 below). Improvements in risk management and control implemented by the Director of Finance since her appointment in April 2014, which were expected to lead to an improved FMCE grade for 2014/15, were also noted.

***The Committee considered the College's draft 2013/14 Financial Management Control Evaluation (FMCE), agreeing that grades for each of the individual sections (including the grade for accountability arrangements - strategic and operational oversight) and the Overall Grade for the year 2013/14 should be "Satisfactory", as proposed by the College.***

#### **82.12 Financial management processes & controls report action plan**

Members considered the action plan arising from the report of the independent consultant who had been commissioned in November 2013 to undertake a review of financial management processes and financial controls, noting that:

- The report showed progress during 2013/14 and to date against all actions arising from the original plan;
- Good progress had been made against the actions shown, with only one shown as not completed and other actions having been completed or having a future completion date;
- Implemented actions included the appointment of 2 additional qualified accountants to the Corporation (i.e. making a total of 3 qualified accountants on Corporation) and to the Audit and the Finance & General Purposes Committees, respectively, which had enhanced Corporation challenge in these areas;
- The introduction of revised risk management processes had been considered earlier on the agenda.

Members discussed the actions relating to control account reconciliations in the action table, noting that all reconciliations had been completed, although a small historical difference of around £300 remained in relation to the purchase ledger control account. This had not, however, been written off as the Director of Finance was still investigating an anomaly in the ledger which had caused the difference to move by around £10-20 at the year end. Advice had been sought during recent finance training on the ledger but the cause of the problem had not been identified. Actions being taken, to try address the issue for the future, included the introduction of a strict close-down period when no further items would be posted to the ledger.

***The Committee received the updated financial management processes and controls report action plan, noting that good progress had been made against the actions shown.***

(The Principal left the meeting).

## **Financial statements / regularity audits & review of annual members' report & financial statements**

### **82.13 Revised financial statements/ regularity audit letter of engagement**

The Committee received the revised financial statements/ regularity audit letter of engagement, noting that it had been previously considered by e-mail circulation. The letter had subsequently been signed by the Chair on behalf of Corporation under the delegated authority stated in the Committee's terms of reference. It was noted that the letter had been revised following changes to the regularity audit regime and was a tri-partite agreement between Baker Tilly, the College and the EFA.

*The Committee received the revised financial statements/ regularity audit letter of engagement, for information.*

### **82.14 Regularity audit self-assessment questionnaire (SAQ)**

Members noted that the Skills Funding Agency (SFA) and the Education Funding Agency (EFA) had issued a new regularity and propriety questionnaire in Aug. 2014, which had been used by Baker Tilly when conducting the regularity audit.

*It was noted that the College's completed regularity and propriety questionnaire had been presented to the Committee's October 2014 meeting.*

### **82.15 Financial Statements Audit Findings Report**

*It was agreed that the Financial Statements Audit Findings Report should be considered later on the agenda after consideration of the College's annual report and financial statements for the year ended 31.7.14 at agenda item 82.17.*

### **82.16 Letter of representation to the financial statements and regularity auditors**

*The Committee approved the letters of representation to the financial statements and regularity auditors for recommendation to Corporation.*

**Action: Chair**

### **82.17 College's annual report & financial statements for the y.e. 31.7.14**

(The Principal returned to the meeting).

The Committee considered the College's annual report and financial statements for the year ended 31.7.14 to inform the Committee's review of the financial statements auditors' audit findings report and to enable the Committee to consider the regularity audit opinion, the statements on corporate governance, responsibilities of members of the Corporation and the system of internal control.

The following sections were reviewed: the Operating and Financial Review; the Statement of Corporate Governance and Internal Control; the Statement of Responsibilities of the Members of the Corporation; the Independent Auditors' Report to the Corporation of Wyke Sixth Form College; the Income and Expenditure Account; the Statement of Total Recognised Gains and Losses; the Statement of Historical Cost Surpluses and Deficits; the Balance Sheet as at 31 July 2014; the Cash Flow Statement, the notes to the accounts; Baker Tilly's regularity audit opinion.

Members noted in discussion that the annual report noted:

- Positive academic achievement and significant growth in learner numbers in 2013/14 i.e. 20.6% above the funding body target for learners aged 16-18;
- The College had made a loss of £215,000, after Financial Reporting Standard (FRS) 17 adjustments, in 2013/2014 against a forecast of £289,000 as a result of the impact of lagged funding, the increase in staffing and examination costs due to increased learner numbers, and a strategic decisions to restructure the College's transport

- arrangements and marketing strategy;
- Transitional funding received from the EFA during the year in respect of increased learner numbers was noted in the accounts;
- The College also had available during the year a draw down loan from Barclays which included a working capital facility of £250,000 and the bank had agreed in February 2014 to an additional overdraft facility of £300,000 which gave the College sufficient funds to enable it to continue to meet its working capital requirements as they fell due, although the overdraft was no longer needed and the College was exploring options for paying off part of its outstanding bank loans;
- A 12-month rolling cash flow forecast was produced each month and showed a healthy cash position when projected forward as far as December 2015;
- In the above circumstances, the going concern basis had been adopted in preparing the financial statements, which the Committee considered to be appropriate.

In reviewing the statement of corporate governance and internal control, members noted that:

- The College has not adopted the English Colleges' Foundation Code of Governance and instead had regard to the UK Corporate Governance Code insofar as it was applicable to the sixth form College sector;
- The 2013/14 Accounts Direction required Corporation member attendance to be included in the statement of corporate governance and internal control, noting that that the draft report included, for the sake of clarity, both percentages and the actual number of meetings attended divided by the maximum number of meetings which could be attended.

Members discussed, with reference to the statements in the statement of corporate governance and internal control generally, the quality of oversight and challenge provided by Corporation and its committees during 2013/14, agreeing that members took their responsibilities in these areas seriously and that the effectiveness of both oversight and challenge had improved during the year.

The Committee considered and agreed that the following statements included in the statement of corporate governance and internal control were appropriate: the statements on the College having an adequate and effective framework for governance, risk management and control and having fulfilled its statutory responsibility for “the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets”; the statement on the College’s regularity, propriety and compliance with funding body terms and conditions of funding; the going concern statement.

The Committee reviewed in detail:

- The financial statements, noting in particular an historical cost/operating deficit for the year of £215,000 but a positive position on the balance sheet due to a good asset base;
- The notes to the accounts, with particular reference to the notes on accounting policies, senior post-holder emoluments, and pension obligations.

Richard Lewis reported that Baker Tilly anticipated issuing an unqualified audit opinion on the financial statements and a positive regularity audit opinion.

Members noted that the 2013/14 Accounts Direction clarified that, in line with Charity Commission guidance, sixth form colleges should publish their annual reports and financial statements on their college website.

**Action: Clerk**

***The Committee received the College's annual report and financial statements for y.e. 31.7.14 to inform the Committee's review of the financial statements auditors' audit findings report and to enable the Committee to consider the regularity audit opinion, the statements on corporate governance, responsibilities of members of the***

## ***Corporation and the system of internal control.***

### **82.15 Financial Statements Audit Findings Report**

It was noted that it had been agreed above that agenda item 82.15 should be considered at this point on the agenda. Richard Lewis of Baker Tilly presented the Financial Statements Audit Findings Report, which was discussed.

Members noted that, Baker Tilly anticipated issuing an unqualified audit report subject to satisfactory clearance of the following matters: final reconciliation statement/return for 2013/14 (adult skills budget); matters connected with the review of post balance sheet events; Lloyds bank audit letter; review of final funding audit opinion and report; confirmation of any discretionary support funds clawback; final review of the College's use of the going concern assumption; signed letter of engagement by the College and EFA; final review of the financial statements.

Members considered the resolution of audit, accounting and regularity issues identified at the planning stage, noting in particular that the emphasis of matter modification included in the 2013 audit report was no longer required for 2014 and had been removed, as noted above, and that there were no issues arising from the regularity audit.

Members received an update on audit, accounting and regularity issues identified during the 2013 audit, noting that all matters had been fully resolved, with the following exceptions where actions were ongoing:

- With reference to the 2013 recommendation relating to project management, it was noted that agreed management responses arising from the 2014 internal audit Transport (Value for Money) review, which had resulted in a Limited assurance opinion, included a process of better written documentation to support decision-making, including improved SMT meeting minutes;
- A rolling programme of physical verification of fixed assets, starting with those with a net book value over £5,000, would be implemented from 2014/15.

Section 4 (Unadjusted/ adjusted misstatements) was considered and it was noted that the adjustment for additional bursary fund clawback relating to 2013/14 in the table on page 15 of the report would be amended before the report was submitted to Corporation.

**Action: RL of Baker Tilly**

Members considered section 6, which listed significant deficiencies in internal control which had been noted during the 2014 audit, noting:

- A recommendation relating to improved arrangements for cash management and security had already been implemented (*see agenda item 82.9 above*);
- Revised Financial Regulations were being written in line with CIPFA guidance and would be completed by January 2015, including a section on gifts and hospitality;
- Existing individual disaster recovery plans for IT and premises would be combined into a single document and desktop tested during 2014/15.

It was noted, in response to members' questions concerning declarations of gifts and hospitality, that a register of declarations of gifts/hospitality received would be kept but staff would not be required to make nil declarations.

Members noted that the list of internal control deficiencies arising from the 2014 audit also included some matters considered earlier on the agenda i.e. the implementation of a more robust evidence system in relation to applications for discretionary support funds (*see agenda item 82.3 above*) and the rolling review of fixed assets which would be undertaken from 2014/15 (*see above*).

The Committee considered the sections in the report on accounting policies and accounting

disclosures, noting that:

- There were no significant estimates and judgements made by management in the preparation of the financial statements that Baker Tilly considered should be brought to the Corporation's attention and that the accounting policies adopted by the College were appropriate for the circumstances of the College and consistent with the FE sector;
- The accounts were in line with relevant accounting standards, including the Statement of Recommended Practice – Accounting for Further and Higher Education 2007 (the FE & HE SORP), and the Accounts Direction issued by the SFA and EFA.

Members considered the section in the report on auditor independence and the following was noted in response to members' questions that Baker Tilly's processes for ensuring auditor independence included:

- Richard Lewis' independence as audit principal being reviewed annually;
- While the JACOP did not specify a specific period after which an audit principal should be replaced, continuing independence would normally be reviewed if a principal had been in place for a significant number of years.

***The Committee received Baker Tilly's Financial Statements Audit Findings Report for the financial year ended 31.7.14.***

#### **82.18 Determine documents to be sent to the EFA**

The Committee noted that:

- Following approval and signing by the Corporation and signing by the College's financial statements/regularity auditors, the College's annual report and financial statements 2013/14 would be submitted to the EFA electronically, together with Baker Tilly's audit findings report;
- The Audit Committee' annual report would also be submitted to the EFA;
- The deadline for submission of the above documents to the EFA was 31.12.14;
- Under the 2013/14 Accounts Direction, the College's 2013/14 annual report and financial statements would also be published on the College website.

**Action: AL/Baker Tilly/Clerk**

***The Committee noted document to be submitted to the EFA by the required deadline of 31.12.14.***

### **Committee matters**

#### **82.19 Audit Committee's annual report to Corporation, the Principal & the EFA**

The Audit Committee considered its 2013/14 draft Annual Report to Corporation and the Principal, noting that the EFA/SFA Joint Audit Code of Practice (JACOP) Part 2 stated that the Audit Committee's annual report must:

- Summarise the committee's activities relating to the financial year under review, including any significant issues arising up to the date of preparation of the report, and any significant matters of internal control included in the management letters and reports from auditors or other assurance providers;
- Include the committee's view of its own effectiveness and how it has fulfilled its terms of reference;
- Include the Audit Committee's opinion on the adequacy and effectiveness of the College's audit arrangements, its framework of governance, risk management and control, and its processes for securing economy, efficiency and effectiveness.

The following amendments/revisions to the draft report were agreed:

- At section 4.2 the dates in the first sentence should be amended to read "2013/14" and "October 2014";
- Section 4.3 should be cross-referenced to other relevant sections to provide a full

overview of the various sources of assurance available to the Committee e.g. sections 8 and 9;

- Corporation's decision to retain an internal audit service, now that this was no longer a mandatory requirement under the JACOP, should be included at section 4, together with a reference to the annual internal audit report as an independent source of assurance which contributed to the Committee's overall opinion;
- Section 4 should also emphasize, with reference to the internal audit service's opinion in its 2013/14 internal audit report, on Corporation's decision to focus on areas of risk when approving the 2013/14 internal audit plan;
- Sections 12.2 and 12.3 should be combined and the final sentences of the revised section 12.2 should read "The 2013/14 report presented to the Committee's November 2014 meeting noted 3 instances of minor irregularity during 2013/14. The Committee's opinion, following review of the report, was that mitigating actions taken by the College to prevent future re-occurrence were appropriate and sufficient";
- Section 5.1 should be reduced i.e. by removal of the direct quotation from the emphasis of matter included in the 2012/13 annual report and financial statements;
- Section 5.2 should be revised to note that good progress had been made on the implementation of recommendations arising from the 2012/13 audit;
- Section 8. should note good progress against the financial management processes and financial controls action plan, including the appointment of 2 additional qualified accountants to the Corporation and to the Audit and the F&GP Committees, respectively, which had enhanced Corporation challenge in these areas;
- The report should be updated generally to reflect the discussion undertaken at the Committee's November 2014 meeting.

**Action: Clerk**

With reference to the wider, more positive sources of assurance to be included in the revision of section 4, the following were noted in discussion:

- Assurances received from the internal auditors and from the College that good progress had been made in the implementation of recommendations arising from internal audit reviews;
- Assurances in the financial statements/regularity audit findings report 2013/14 that good progress had been made in relation to recommendations arising from their 2012/13 audit findings report;
- Assurances from management that appropriate actions had been agreed in relation to observations arising from the EFA's September 2014 Funding Assurance report;
- Assurances received from the College that good progress had been made in relation to areas for improvement identified in the independent review of financial management processes and financial controls commissioned in November 2013;
- The College's self-assessed overall grade of Satisfactory in relation to the 2013/14 Financial Management Control Evaluation (FMCE) completed by the College, which the Committee had agreed was appropriate;
- Risk management processes had been reviewed and improved during 2014.

It was agreed that the following documents should be attached as appendices to the Audit Committee's Annual Report:

- Internal Audit Service Annual Report 2013/14
- Financial Statements Audit Findings Report, year ended 31 July 2014
- Regularity Audit Report for the year ended 31 July 2014
- College's Annual Risk Management Report 2014
- EFA funding assurance report 2014

**Action: Clerk**

***The Committee agreed that the Clerk should amend the Committee's annual report, taking into account the above amendments and comments, and that the revised report should be e-mailed to the Committee for review and comment before presentation to***

*the Corporation.*

**Action: Clerk**

***The Committee noted that the final version of the Audit Committee Annual Report 2013/14 would be presented to the December 2014 meeting of Corporation before the Corporation considered the Annual Financial Statements and Members' Report for the year ended 31.7.14.***

**Action: Chair/Clerk**

**82.20 Review the Committee's annual performance checklist & performance indicators**

The Committee received a report on its 2013/14 performance indicators and completed its 2013/14 performance checklist, noting with reference to the EFA document submission list, the late submission of the College's annual financial statements and related documents in 2013/14 (i.e. in February 2014), noting also that the EFA had been kept fully informed of the reasons for late submission.

***The Committee completed its annual review of its performance checklist and performance indicators, agreeing that the Chair should sign the completed checklist.***

**Action: Chair**

**Funding body circulars & new regulations &/or documents from other external bodies**

**82.21 Documents from external bodies**

***A letter dated 7.11.14 from the Sixth Form College Commissioner, including sixth form college benchmarking data, was received.***

**Final matters**

**82.22 Any other business**

***There was no other business***

**82.23 Risk management – items identified at the meeting**

***No new items of risk were identified at the meeting.***

**82.24 Date of next meeting: 9 March 2015 at 4.30pm**

**82.21 Meeting of Committee with auditors without the presence of senior management**

***It was agreed that there was nothing to discuss under this item.***

Fiona Bagchi  
Clerk to the Corporation

**AUDIT COMMITTEE  
MINUTES OF MEETING 83 HELD ON MONDAY 9 MARCH 2015**

- Present:** Philip Wright (Chair), John Gilleard, Adam Jennison, Martin Longbottom, John Shipley
- In attendance:** Lesley Hill (E. Coast Audit Consortium, internal auditors), Bill Jackson (Director of Network & Information Systems), Anna Lamplough (Director of Finance), Richard Lewis (Baker Tilly, financial & regularity auditors), Jay Trivedy (Principal)
- Clerk:** Fiona Bagchi

**83.1 Apologies for absence**

*There were no apologies for absence.*

**83.2 Declaration of interests**

*Martin Longbottom declared that he was an employee of Hull College.*

*John Shipley declared he was a councillor with Kingston upon Hull City Council.*

*Richard Lewis declared an interest, as an employee of Baker Tilly, in items 83. 11-13.*

**Minutes & matters arising**

**83.3 Minutes of meeting held on 24 Nov. 2014**

*The minutes of the meeting held on 24 Nov. 2014 were approved.*

**83.4 Matters arising and action table**

(Matters arising below are numbered according to their position in the Action Points table appended to the end of the minutes of the previous meeting. The reference to where the action can be found in the minutes is given in brackets at the end of each item).

- 1 The Oct. 2014 minutes had been amended, as agreed (82.4).
- 2 Adam Jennison had provided an example of a lessons learnt report which the Clerk would adapt for use by the College (82.5).  
**Action: Clerk**
- 3 As the action for Adam Jennison to observe a Risk Management Group meeting was no longer relevant, it had been removed from the action table, as agreed (82.5).
- 4-6 The updated College Assurance Map was on the agenda (82.5).
- 7 The draft College Assurance Map had been presented to the Dec. 2014 Corporation meeting, as agreed (82.5).
- 8 The Director of Finance had used the CIPFA model financial regulations when revising the College's financial regulations. The revised Financial Regulations had been considered at the Jan. 2015 F&GP Committee meeting and would

- be recommended to the Mar. 2015 of Corporation for approval (82.5).
- 9 The Chair signed the amended financial statements auditor performance checklist at the meeting (82.5).
- 10 Audit Committee minutes released from confidentiality had been placed on the website (82.5).
- 11 A further review of the Oct. & Dec. 2014 minutes not released from confidentiality would be further considered in Oct. 2015 (82.5).  
**Action: Clerk**
- 12 The East Coast Audit Consortium (ECAC) had been re-appointed as internal auditors for 2014/15 by the Dec. 2015 meeting of Corporation, on the recommendation of the Audit Committee (82.5).
- 13 The Chair signed the internal audit performance checklist at the meeting (82.5).
- 14 The 2014/15 internal audit plan had been approved at the Dec. 2014. Corporation meeting on the recommendation of the Audit Committee (82.5).
- 15 It had been agreed that the ECAC staff member doing the Follow Ups review in 2015 would not have undertaken the original reviews. The report on the Follow Ups review would be presented to the Audit Committee's June 2015 meeting (82.5).
- 16 It was noted that it had been agreed that the College's bursary and support fund policy should be updated annually and that the 2015/16 statement would be presented to Corporation for approval in 2015 (82.6).  
**Action: DD/Clerk**
- 17 The College's revised risk management policy had been approved at the Dec. 2014 meeting of Corporation (82.8).
- 18 It had been agreed that the strategic risk register should be presented to each meeting of the Committee and that the full register should be presented to the Committee annually at the Committee's first autumn term meeting, noting that the College's updated strategic risk register was on the agenda (82.8).  
**Action: AL/Clerk**
- 19 The strategic risk register had been presented to the Dec. 2014 meeting of Corporation, as agreed (82.8).
- 20 The College's Statement of Internal Financial Control Checklist had been signed by the Principal, as agreed (82.10).
- 21 Reference to the College's annual Statement of Internal Financial Control Checklist had been added to the College's Assurance Map, as a source of Management assurance. The updated assurance map was on the agenda (82.10).
- 22 The Clerk had forwarded the initial course costing model developed by the former Director of Finance to the Director of Finance, for information, as agreed (82.11).
- 23 The Corporation had approved the letters of representation to the financial

- statements & regularity auditors at its Dec. 2014 meeting (82.12).
- 24 In line with the Accounts Direction, the College's 2013/14 accounts had been published on the College website (82.14).
- 25 The amended, final version of Baker Tilly's 2013/14 Audit Findings Report had been presented to Corp. in Dec. 2014, as agreed (82.15).
- 26 The College's signed annual report & financial statements 2013/14 and the Audit Committee's 2013/14 annual report had been submitted to the EFA by the 31.12.14 deadline. As noted above, the College's 2013/14 annual report & financial statements had also been published on the College website (82.18).
- 27- The Audit Committee's 2013/14 annual report had been amended, as agreed,  
29 and the following documents had been attached as appendices to the Audit Committee's 2013/14 annual report, as agreed: Internal Audit Service Annual Report 2013/14
- Financial Statements Audit Findings Report, year ended 31 July 2014
  - Regularity Audit Report for the year ended 31 July 2014
  - College's Annual Risk Management Report 2014
  - EFA funding assurance report 2014 (82.19)
- 30 The final version of the Audit Committee Annual Report 2013/14 had been presented to the Dec. 2014 meeting of Corporation before the Corporation considered the Annual Financial Statements & Members' Report for the year ended 31.7.14 (82.19).
- 31 The Chair signed the Committee's 2013/14 performance checklist at the meeting (82.20).

## Rolling implementation plans

### 83.5 Rolling implementation plan: internal audit recommendations

***The Committee noted that the College had reported that the remaining internal audit recommendations arising from reviews undertaken in 2012 and 2013 had been completed, as had recommendations arising from reviews undertaken in 2013/14.***

### 83.6 Rolling implementation plan: financial statements audit recommendations

(Adam Jennison joined the meeting during this item).

Members considered the rolling implementation plan of recommendations arising from the 2014 financial statements audit, noting:

- Completed actions i.e. relating to the production of revised Financial Regulations (including regulations relating to the College's gifts & hospitality register) which would be presented for approval to the Corporation's Mar. 2015 meeting;
- Actions in progress i.e. a physical check of assets on the asset register, the development of a bursary policy;
- An outstanding action relating to the College's Disaster Recovery & Business Continuity plans, noting that work on these was now ongoing with a further progress report to be made to the Committee's June 2015 meeting.

Members noted in discussion of the physical check of assets, that the Director of Network & Information Systems maintained a separate register of IT equipment.

Members noted with reference to the College's Disaster Recovery & Business Continuity plans that the College already had IT Disaster Recovery (DR) arrangements in place. The

production of a Business Continuity plan (BCP) was discussed with reference to models used by other educational institutions, noting that it was planned that the College BCP should be produced and desk-top tested during 2015.

***The Committee received a progress report on the rolling implementation plan of recommendations arising from the 2014 financial statements audit.***

### **83.7 Rolling implementation plan: updated funding assurance audit recommendations**

***The Committee noted that all actions arising from the funding assurance audit undertaken in Sept. 2014 had been completed or would be in place for 2015/16.***

## **Internal Audit**

### **83.8 Progress report on the 2014/15 internal audit**

Lesley Hill of the East Coast Audit Consortium (ECAC) gave a progress report on the 2014/15 internal audit plan.

Members noted that:

- The Purchase Ledger Computer Assisted Audit Techniques (CAATs) report had been completed and was on the agenda;
- The Student Financial Support report was in draft form and that the final version of the report would be presented to the June 2015 meeting of the Committee, together with the reports from the Catering and Follow Ups reviews, which were due to be undertaken shortly.

It was noted in response to questions concerning the draft Student Financial Support report that:

- The report had attracted an overall grade of Limited Assurance and had resulted in 4 Grade 2 (significant) and 5 Grade 3 (requires attention) recommendations, noting, however, that the report was currently in draft form and that managers had yet to respond to the recommendations;
- The report had not indicated that there would be clawback of funds by funding agencies as a result of inappropriate application of funding guidance or support provided to ineligible students, but had noted that only 50% of eligible funds had been allocated at the date of the review (Mar. 2015), with it being recommended that the College's discretionary bursary policy should be reviewed to ensure that the College maximised the benefit to students;
- The College senior management team (SMT) had discussed the above situation in relation to 2014/15 bursary funding and would ensure that remaining funds were distributed, if possible, by the May 2015 half-term and would review the policy for 2015/16.

***The progress report on the 2014/15 internal audit was received.***

### **83.9 Purchase Ledger Computer Assisted Audit Techniques (CAATs) report**

Lesley Hill presented the Purchase Ledger Computer Assisted Audit Techniques (CAATs) report.

Members noted in discussion that:

- The above review had used computer assisted audit techniques (CAATs) to examine the data held in the College's purchase ledger;
- The data reviewed had covered the period from 2012 - Jan 2015;
- A number of queries had been run on the data for the purposes of producing trend analyses and highlighting potential data anomalies e.g. the areas reviewed included the number of invoices/credit notes posted, the total value of purchase ledger transactions, the average value of transactions, the number/percentage of credit notes/invoices by value, high value invoices, potential duplicate invoices;

- Given the nature of the review an assurance level was not appropriate but no significant areas of concern had been identified.

It was noted in response to members' questions that:

- The report findings were comparable to those found in other similar institutions;
- With reference to potential duplicate payments, the Director of Finance had confirmed that she had carried out a review of the higher value potential duplicate payments found during the review and these had been confirmed as having a corresponding credit or as being genuine invoices with the same value;
- Not all credits had a corresponding credit note, suggesting that some credits might have resulted from the correction of mis-postings;
- With reference to the recommendation in the report that, as about 30% of the invoices paid were of relatively low value (i.e. less than £50), there might be some scope to streamline invoicing processes;
- With reference to the above, there was, however, likely to be a number of relatively low value invoices in a small college with devolved budgets and the perceived inefficiencies of the former had therefore to be balanced against any advantages of the latter;
- Budget-holders were encouraged to obtain value for money wherever possible e.g. purchasing through the purchasing consortium used by the College.

Members discussed other areas where CAATs could be used to provide assurance e.g. they could be used as part of payroll reviews to ascertain whether duplicate payments were being made.

***The Committee received the Purchase Ledger Computer Assisted Audit Techniques (CAATs) report, noting that no significant areas of concern had been identified.***

## **Assurance Map**

### **83.10 Initial annual review of the draft updated Assurance Map**

The Clerk reported that the Audit Committee was scheduled to review the College's Assurance Map annually at its spring term meeting to enable it to fulfil its responsibility to advise the Corporation on the adequacy and effectiveness of the College's assurance framework in order to inform planning for the following academic/financial year, including, where appropriate, discussion of the development of an internal audit plan.

The Committee reviewed the Assurance Map, which had been updated by members of the College's senior management team (SMT). The addition of a column to allow the assurance status of rows to be assessed using a Red-Amber-Green rating was noted.

***Members considered whether there were any gaps in the current register and agreed the following updating additions:***

- Under the Management column of the Business Continuity section, include progress made to date;
- Under the Management column of the Integrity section, add the Staff Code of Conduct;
- Under the Management column of the Financial Regularity section, add reference to the DSATs and ILR being run monthly;
- Amend the Independent column of the Risk Management section to read "Regularity Audit – as part of 2012/13 year-end audit carried out by External Audit, [there is letter of representation on the a Regularity Audit report was issued](#). Financial Statements Audit carried out by External Audit for year ended 31 July 2014 includes [a letter of representation on the a Financial Statements Audit findings report](#)";
- References to internal audit reviews older than 3 should be removed, to ensure that references were up to date.

**Action: Clerk/AL/WGJ/AW**

Members noted the importance of the map being subject to regular review by the College's SMT to ensure that it remained a "live" document.

***The Committee reviewed the Assurance Map, agreeing updating changes and that the updated Assurance Map should be presented to the Committee's June 2015 meeting for further review.***

**Action: Clerk**

Richard Lewis of the College's financial statements/regularity auditors, Baker Tilly, and Lesley Hill of the College's internal auditors, the East Coast Audit Consortium left the meeting.

#### **Financial Statements/Regularity Audit**

##### **83.11 Review the cost of the financial statements/regularity & other audit arrangements from the previous year**

***The Committee noted that the cost of the financial statements and regularity audit for the year ended 31.7.14 was £15,700 (excl. VAT), which was just above the fee of £15,575 (excl. VAT) stated in the financial and regularity audit plan, noting, however, that the approved plan had also noted that that additional costs would be incurred due to additional consideration around the going concern assumption.***

##### **83.12 Performance review of the financial statements/regularity auditor**

The Committee completed its annual review of Baker Tilly as financial statements/ regularity auditors, using the checklist included in the 2013/14 plan.

Members agreed that responses in the checklist for the 2013/14 audit should be as in the 2012/13 checklist, agreeing that:

- The response to Question 9 (Was the College informed of any material events during the course of the audit?) should be "Not applicable";
- The response to Question 16 should be "Not applicable", as the audit had not resulted in a qualified audit opinion.

**Action: Clerk**

***The Committee completed its annual of Baker Tilly as financial statements/ regularity auditors, noting that the outcome was positive.***

***It was agreed that the final version of the checklist, amended as noted above, should be presented Chair of the Audit Committee for signing at the Committee's June 2015 meeting.***

**Action: Clerk/Chair**

##### **83.13 Consideration of re-appointment of the financial statements/regularity auditor, subject to agreement of their fees, for recommendation to Corporation**

***Having undertaken a positive performance review of Baker Tilly, the financial statements/regularity auditors, the Committee agreed to recommend to Corporation their re-appointment for the audit for the year ending 31.7.15 subject to agreement of their fees.***

**Action: Chair**

Richard Lewis and Lesley Hill re-joined the meeting.

#### **Risk Management**

##### **83.14 Updated Strategic Risk Register**

The Committee reviewed the College's strategic risk register, which had been updated following review by the College's SMT.

Members noted:

- Controls put in place since the last review i.e. the production of revised financial regulations and the scheme of delegation, the holding of a *Managers Managing Stress* workshop;
- Additional controls planned i.e. a desk based testing exercise for the College's estates business continuity plan (BCP), and the proposal to hold a staff engagement workshop for senior managers and some Corporation members;
- The importance of the regular review of the strategic risk register to ensure that it remained a live document.

Members discussed the proposed desk based testing of the College's estates BCP, noting the importance of choosing appropriate scenarios for the testing exercise and of ensuring that the different parts of the College's Disaster Recovery Plan (DRP) and of the (BCP) worked together e.g. the IT DRP and the estates BCP. The College's response to the Government's Prevent Duty agenda was also discussed in this context.

It was noted in response to members' questions concerning the estates BCP that it was proposed that testing should take place during 2015.

***The Committee received the College's updated strategic risk register, noting changes made to the register since the Committee's last review of the register.***

#### **Funding body circulars & new regulations &/or documents from other external bodies**

##### **83.15 SFCA response to the AoC's English Colleges' Code of Good Governance consultation**

The Clerk reported that:

- The Association of Colleges' (AoC) had produced the English Colleges' Foundation Code of Governance for FE colleges in 2011, supplemented by an Audit & Accountability Annex from 2013;
- As the College's Corporation has not adopted the AoC English Foundation Code, it continued to report on the extent to which it had had regard to the requirements of the Financial Reporting Council (FRC) UK Corporate Governance Code (in so far as it applied to sixth form colleges) in its annual Report & Financial Statements, as permitted under the SFA/EFA Accounts Direction;
- The AoC had produced a revised version of its Code in Dec. 2014, on which it had been consulting;
- Following consultation with the sixth form college sector, the Sixth Form Colleges' Association (SFCA) had produced a response to the AoC consultation.

The Committee noted that concerns raised in relation to the revised AoC Code included that:

- Catholic and Trust sixth form colleges whose governance structure differed from that assumed in the Code would be unable to adopt it;
- The Code had been designed with reference to General FE Colleges e.g. there was a reference in the Code to the BIS Governance Guide which was not applicable to the sixth form college sector;
- Part II of the Code was too prescriptive; and
- The SFCA considered that the suggestion that adoption of the Code should be a condition of funding was unacceptable.

***Members received the AoC's revised English Colleges' Code of Good Governance, noting concerns raised by sixth form colleges and that it was understood that the SFCA's Governance Policy Committee would further review the revised AoC Code in late Mar. 2015. It was agreed that any guidance issued by the SFCA on adoption of the revised AoC Code by sixth form colleges should be presented to the Audit Committee's June 2015 meeting.***

**Action: Clerk**

#### **Final matters**

**83.16 Any other business**

*There was no other business.*

**83.17 Risk management – items identified at the meeting**

*No new items of risk were identified at the meeting.*

**83.18 Date of next meeting**

*It was noted that the Committee was next scheduled to meet on Monday 15 June 2015 at 4.30pm.*

**83.19 Meeting of Committee with auditors without the presence of senior management**

*It was agreed that there was nothing to discuss under this item.*

Fiona Bagchi  
Clerk to the Corporation

**AUDIT COMMITTEE  
MINUTES OF MEETING 84 HELD ON 15 JUNE 2015**

**Present:** Philip Wright (Chair), John Gilleard, Martin Longbottom, John Shipley

**In attendance:** Benita Jones (E. Coast Audit Consortium, internal auditors), Anna Lamplough (Director of Finance), David Robson (Baker Tilly, financial & regularity auditors), Jay Trivedy (Principal)

**Clerk:** Fiona Bagchi

**84.1 Apologies for absence**

*Apologies were received from Adam Jennison (Committee member), Lesley Hill (ECAC), and Richard Lewis (Baker Tilly).*

**84.2 Declaration of interests**

*Martin Longbottom declared that he was an employee of Hull College.*

**Minutes & matters arising**

**84.3 Minutes of meeting held on 9 Mar. 2015**

*The minutes of 9 Mar. 2015 were approved, subject to the following amendments:*

- Under Declarations of Interests (item 83.2), it should be recorded that Martin Longbottom had declared that he was an employee of Hull College;*
- At item 83.12, the first date in the second sentence should read 2013/14.*

**Action: Clerk**

**84.4 Matters arising and action table**

(Matters arising below are numbered according to their position in the Action Points table appended to the end of the minutes of the previous meeting. The reference to where the action can be found in the minutes is given in brackets at the end of each item).

- 1 Members noted that Adam Jennison, a Committee member, had provided an example of a lessons learnt report, which the Clerk had adapted for use by the College in relation to significant projects (83.4).

*The Committee reviewed and approved the lessons learnt report and agreed that it should be placed on the College network on the P-sec drive, to enable it to be accessed by senior managers.*

**Action: Clerk**

*It was also agreed that a lessons learnt report should be completed retrospectively for the Elm Building.*

**Action: Clerk**

- 2 It was noted that the College's bursary and support fund policy had been updated by the College. Due to timing issues, the May 2015 meeting of Corporation had delegated approval of the 2015/16 bursary policy statement to the College's senior management team (SMT), with subsequent ratification by Corporation's Finance & General Purposes (F&GP) Committee at its meeting

on 1.6.15. It was noted that the policy would be updated annually (83.4).

**Action: Registrar/Clerk**

- 3 It had been agreed that the strategic risk register should be presented to each meeting of the Committee and that the full register should be presented to the Committee annually at the Committee's first autumn term meeting from Oct. 2015 (83.4).

**Action: Director of Finance/Clerk**

- 4 The amended and updated Assurance Map was on the agenda, as agreed (83.10).

- 5 The draft financial statements/regularity auditors' performance checklist 2013/14 had been amended, as agreed (83.12).

- 6 The amended financial statements/regularity auditors' performance checklist had been presented to the Chair of the Audit Committee and signed at the Committee's June 2015 (83.12).

- 7 The Mar. 2015 meeting of Corporation had approved the appointment of Baker Tilly as financial statements/regularity auditors for the audit for the year ended 31.7.15, subject to agreement of fees (83.13).

- 8 A report from the Clerk on the Association of Colleges' (AoC's) revised English Colleges' Code of Good Governance Code, including guidance from the Sixth Form Colleges' Association (SFCA), was on the agenda (83.15).

#### **Rolling implementation plan**

##### **84.5 Rolling implementation plan: financial statements audit recommendations**

*The Committee reviewed the financial statements audit rolling implementation plan, agreeing in discussion that an annual review of the College's bursary policy would be added to the Corporation's revised standing agenda item list.*

**Action: Clerk**

*The Committee noted that all actions in the financial statements audit rolling implementation plan had been completed or were due to be completed by autumn 2015.*

#### **Internal Audit**

##### **84.6 Internal audit reports: progress report**

Benita Hill of ECAC presented the 2014/15 internal audit progress report. Members considered the reports arising from the following reviews:

- The Student Financial Support review, which had considered the administration of the free student meals scheme and the provision of support through the 16-19 bursary scheme, had resulted in a Limited Assurance opinion and 6 recommendations (3 graded Requiring Attention (grade 3 i.e. the lowest grade in a 3 grade scale) and 3 graded as Significant (grade 2)) which had been accepted by management;
- The Catering review, which had resulted in a Substantial Assurance opinion and 3 recommendations (all graded as Requiring Attention (grade 3), which had been accepted by management.

Members considered recommendations arising from the Student Financial Support report in detail, noting with reference to the 3 recommendations graded Significant that:

- The report had concluded that the College's current policy in respect of discretionary bursary funds did not currently differentiate sufficiently between the needs of

individual students (i.e. all discretionary bursary holders received the same level of support and, under the current payment profile, while the balance of a discretionary bursary award could be paid to the student at the end of the year, this did not necessarily provide support on a sufficiently timely basis), which would be addressed by planned changes to the College's 16-18 bursary system from 2015/16;

- Students receiving the vulnerable bursary currently received meal passes as part of their vulnerable bursary allocation rather than having their eligibility for support under the free meals scheme considered separately, which would be addressed by a new combined application process for vulnerable bursaries, discretionary bursaries, and free meals, which was to be introduced from 2015/16;
- Formal reports on student bursaries would be made to the College's senior management team (SMT) from 2015/16.

It was noted in response to members' questions that the College would review the household income threshold currently used by the College to determine eligibility for discretionary bursaries (i.e. £16,190) with reference to the indicative level used in the Education Funding Agency (EFA) bursary fund guidance (i.e. £25,000).

Members noted that the final review in the 2014/15 internal audit plan was the Follows Ups review, which had been completed by ECAC, with management responses currently being finalised. It was noted that the Follows Ups report and the Annual Internal Audit Report would be presented to the Committee during autumn 2015.

**Action: ECAC/Clerk**

***The Committee completed its review of progress against the 2014/15 internal audit plan. Members noted that the implementation of recommendations arising from the 2014/15 internal audit reports would be monitored at each meeting by the Committee and by the internal auditors, ECAC, in their 2016 Follow Ups review.***

#### **Assurance Map**

##### **84.7 Updated Assurance Map**

The Committee reviewed the updated College Assurance Map, discussed how detailed the Map should be (given that it was intended to be a brief sign-posting document which highlighted gaps in assurance and/or areas of duplication), and noted that the Red-Amber-Green (RAG) column needed to be completed.

**Action: Clerk/SMT**

***The Committee completed its review of the College's updated Assurance Map and agreed, in discussion, that production of a Board Assurance Framework was not necessary but that the Director of Finance should link gaps in the College's Strategic Risk Register to the College Assurance Map.***

**Action: Director of Finance**

#### **Financial Statements/Regularity Audit**

##### **84.8 Financial statements/regularity audit plan for y.e. 31.7.15**

David Robson of Baker Tilly presented the financial statements audit/regularity assurance engagement plan for the year ending 31.7.15.

Members noted that:

- The purpose of the plan was to explain the scope of the audit of the financial statements and the regularity assurance engagement, Baker Tilly's approach, and the key risks on which the work would be focussed;
- The plan also formed part of Baker Tilly's ongoing communication with the College under International Standard on Auditing (UK and Ireland) 260 in respect of the financial statements audit of the College;
- Baker Tilly's primary responsibility as financial statements auditor was to form and express an opinion as to whether the College's financial statements showed a true

- and fair view and, with reference to the regularity assurance engagement, to provide a reasonable regularity assurance opinion;
- In addition, the College had asked Baker Tilly to provide an independent reasonable assurance report in connection with the Teachers' Pensions (TPS) Contributions for the year ended 31.3.15;
  - Baker Tilly's engagement letter dated 15.10.14 remained in force and reflected current reporting requirements but would be reviewed when the SFA/EFA issued updated Regularity Guidance.

The Committee noted the timetable for the audit and that the key areas of proposed audit focus/risk included the following: income recognition, pension scheme liabilities, going concern (including review of bank covenants), management override of controls.

Members noted that proposed fees of £12,650 for the 2015 audit were lower than for the 2014 audit, which had included additional work in relation to the Going Concern statement.

The Committee considered the appendices to the plan, including confirmation of auditor independence, briefings on emerging issues (Appendix E) and financial reporting developments (Appendix F).

Members noted in discussion of sector issues, recorded in Appendix E, that continuing funding cuts for sixth form and FE colleges and funding bodies having assessed the financial health of around 45 colleges in the FE/sixth form college sector as inadequate, would lead to greater emphasis on going concern issues. Members noted that the EFA had issued benchmarking data in 2014, which had enabled colleges to compare their financial position with others in the sixth form colleges sector, and discussed the College's position in the 2014 tables. It was noted that the 2015 financial benchmarking report had now been issued and would be presented to Corporation at its July 2015 meeting for review.

The Committee noted increased deficits in the local government pension scheme overall, recorded at Appendix E, and discussed in detail issues relating to actuarial assumptions, noting that the College's support staff were eligible for membership of the East Yorkshire Pension Fund (EYPF). It was noted that, as part of the financial statements audit, Baker Tilly would obtain and review a copy of the Financial Reporting Standard (FRS) 17 actuarial valuation prepared by the actuary and to determine the extent to which reliance could be placed on it. They would also undertake a review to ensure that College management had checked the data and considered the assumptions used by the actuary in preparing the valuation. Members considered whether the College's SMT or Corporation should check actuarial data and concluded that the College's current practice of review by the Director of Finance, in discussion with the financial statements auditors, was appropriate. It was noted that there was limited opportunity for the College to challenge actuarial assumptions, other than, for example, in relation to accuracy of scheme membership numbers or information on pay increases. It was noted that a report on the EYPF was presented to the F&GP Committee and Corporation in Sept. annually.

Members noted, with reference to other sector issues detailed at Appendix E, that banks had increased the FE sector's risk profile, resulting in bank covenant waiver or refinancing approval no longer being automatic or inexpensive, and discussed the impact of FRS 102 and the new Statement of Recommended Practice (SORP) for FE and HE on covenant measures. It was noted that the Director of Finance had already contacted the College's bankers concerning the impact of FRS102 on covenants applying to the College's loans.

Members noted, with reference to Appendix F (financial reporting developments i.e. the new SORP and the transition to FRS 102), that:

- The first set of financial statements prepared under the updated SORP reflecting FRS 102 would be for the year ended 31.7.16 but that, to ensure that corresponding amounts were comparable, the balance sheet and the income and expenditure (I&E)

account for the year ending 31.7.15 would need to be restated and, in addition, the balance sheet for the year ended 31.7.14 (the transition date) would also need to be restated, to ensure that the opening reserves position was correct;

- Certain options and exemptions were available from the transition date e.g. with reference to capital grants, a corporation could either:
  - Continue to defer its capital grants as currently adopted but with the balance reclassified within liabilities rather than as part of reserves (resulting in a reduction in reported net asset position), with the annual grant release, equivalent to the related depreciation charge, credited to the I&E account; or
  - Adopt a performance-model basis recognising income in the I&E account in the year when performance conditions had been met (resulting in a reduction in annual result), at the transition date, with the deferred capital grant amount taken to reserves (resulting in a reduction in reported net asset position).

Members also discussed the need for holiday pay accrual to be shown in the accounts where the financial year end and the leave year end differed, as at Wyke.

***The Committee considered Baker Tilly's financial statements/regularity audit plan for the year ending 31.7.15, including fees, and agreed it recommend it to Corporation for approval.***

**Action: Chair/Clerk**

**84.9 Report from Baker Tilly on the impact of the revised FE/HE Statement of Recommended Practice (SORP) & the transition to Financial Reporting Standard (FRS) 102**

***It was noted that this had been included as a briefing in Baker Tilly's audit plan and had therefore been discussed under item 84.8 above.***

**84.10 Regularity Audit Self-Assessment Questionnaire (SAQ)**

***The Committee noted that the 2014/15 Regularity Self-Assessment Questionnaire (SAQ) was being revised by the Education Funding Agency (EFA) and the Skills Funding Agency (SFA) and was expected to be issued in July 2015.***

**Action: Clerk**

**84.11 Letter of engagement for the provision of the Teachers' Pension Scheme (TPS) certificate 2015**

***The Committee noted that the letter of engagement for the provision of the Teachers' Pension Scheme (TPS) certificate had been signed by the Chair of the Audit Committee in May 2015, following e-mail consultation with Audit Committee members and a report to the May 2015 Corporation meeting.***

**Risk Management & Business Continuity Planning**

**84.12 Updated strategic risk register**

The Director of Finance, Anna Lamplough, presented the College's strategic risk register, which had been reviewed and updated by the College's senior management team (SMT).

Members noted the following changes to the register since it was reviewed at the Committee's Mar. 2015 meeting:

- Risk E1 (external factors: outreach) has been downgraded to a risk of 8 and would therefore be removed from the strategic risk register;
- Risk E4 (external factors: changes in government policy leading to funding cuts) had been upgraded to a risk of 12 and had therefore been added to the strategic risk register;

- Risk PREM 01 (Infrastructure), the College's Business Continuity Plan had been drafted and would be considered later on the agenda;
- A new risk (RES06), relating to the new linear format of A-levels examinations, had been added to the register.

***The Committee reviewed the College's updated strategic risk register and agreed to recommend it to Corporation for approval.***

**Action: Chair/Clerk**

**84.13 Review business continuity plan (BCP) & critical response plan**

The Director of Finance reported that having discussed business continuity planning with Committee member, Martin Longbottom, standard model business continuity and critical response plans had been adapted for College use and discussed with the College's SMT and the Director of Resources. Members discussed how the 2 plans related to each other and to the College's IT security and disaster recovery plans. It was noted, in discussion, that the College would carry out a desk-top Business Continuity Plan (BCP) exercise during summer term 2015, which would enable the plan to be considered by relevant staff in relation to specific scenarios. It was agreed that a report on the outcome of the exercise should be made to the Audit Committee's Oct. 2015 meeting.

***The Committee reviewed the College's Business Continuity Plan (BCP) and Critical Response Plan and agreed to recommend them to Corporation for approval.***

**Action: Chair/Clerk**

***Members noted that the College would carry out a desk-top BCP exercise during summer term 2015, which would enable the plan to be publicised to relevant staff and for it to be further refined, if necessary. It was agreed that a report on the outcome of the exercise should be made to the Audit Committee's Oct. 2015 meeting.***

**Action: Director of Finance/Clerk**

**Committee matters**

**84.14 Annual review of the Committee's terms of reference & standing agenda item list**

The Committee noted that the Clerk was recommending a change to the membership section of the Committee's terms of reference to bring it into line with Corporation's approved constitution (i.e. 5 Audit Committee members with a quorum of 3 members) and that minor updating changes should be made to the Committee's standing agenda item list, to better reflect its current cycle of business.

***The Committee completed its annual review of its terms of reference and standing agenda item list and agreed to recommend to Corporation the updating changes noted above.***

**Action: Chair/Clerk**

**84.15 Annual review of Committee members' length of office**

***The Committee completed its annual review of Committee members' length of office, noting that Adam Jennison's term of office as a Parent member of Corporation and as a member of the Audit Committee, would end on 31 Aug. 2015. It was noted that the Corporation's Search & Governance Committee (SGC) was reviewing committee vacancies and would make recommendations to Corporation in due course.***

**Action: Clerk/SGC**

**Funding body circulars & new regulations &/or documents from other external bodies**

**84.16 Funding body circulars & new regulations &/or documents from other external bodies:**

(i) AoC's English Colleges' Code of Good Governance (Mar. 2015), (ii) SFCA guidance on adoption of the Code (May 2015), & (iii) Baker Tilly's briefing note on the Code (June 2015).

*The Committee received and considered the above documents and agreed that the Committee should review in Oct. 2015 whether to recommend the adoption of the Code to the Corporation. It was also agreed that the Clerk should consult with the Norvic Clerks' Group to find out what percentage of sixth form colleges in the region had adopted the Code.*

Action: Clerk

#### Appendix A

##### 84.17 Internal audit Follow Ups report

*The Committee noted that the 2014/15 internal audit Follow Ups report would be presented to the Committee's Oct. 2015 meeting (see also item 84.6 above).*

Action: Clerk/ECAC

#### Final matters

##### 84.18 Any other business

*It was noted that there was no other business.*

##### 84.19 Risk management – items identified at the meeting

*It was noted that no new items of risk had been identified at the meeting but that the local government pension scheme actuarial assumptions had been discussed when reviewing item 84.8 (Financial statements/regularity audit plan for y.e. 31.7.15).*

##### 84.20 Date of next year's meetings

*It was noted that the dates of next year's meeting remained to be agreed.*

Action: Clerk

##### 84.21 Meeting of Committee with auditors without the presence of senior management

*The Committee agreed that there was nothing to be discussed under this item.*

Fiona Bagchi  
Clerk to the Corporation



**AUDIT COMMITTEE  
MINUTES OF MEETING 85 HELD ON 20 OCTOBER 2015**

**Present:** Philip Wright (Chair), John Gilleard, Martin Longbottom, John Shipley

**In attendance:** Lesley Hill & Benita Jones (E. Coast Audit Consortium, internal auditors), Anna Lamplough (Director of Finance), Bill Jackson (Director of Network & Information Systems), Richard Lewis (Baker Tilly, financial & regularity auditors), Jay Trivedy (Principal)

**Clerk:** Fiona Bagchi

**85.1 Apologies for absence.**

There were no apologies for absence. It was noted that Richard Lewis of Baker Tilly would join the meeting later on the agenda.

**85.2 Declaration of interests**

*Martin Longbottom declared that he was an employee of Hull College.*

**85.3 Election of Chair & Vice-Chair**

The Clerk reported that Committee Chairs and Vice-Chairs were elected annually at the first committee meeting of the academic year

Martin Longbottom nominated Philip Wright as Chair of the Audit Committee. The nomination was seconded by John Shipley.

*Philip Wright was elected as Chair of the Audit Committee unopposed.*

Philip Wright nominated Martin Longbottom as Vice-Chair of the Audit Committee. The nomination was seconded by John Shipley.

*Martin Longbottom was elected as Vice-Chair of the Audit Committee unopposed.*

**Minutes**

**85.4 Minutes of previous meeting held on 15.6.15**

*The minutes of the meeting held on 15.6.15 were approved.*

**85.5 Matters arising & actions**

(Matters arising below are numbered according to their position in the Action Points table appended to the end of the minutes of the previous meeting. The reference to where the action can be found in the minutes is given in brackets at the end of each item).

1 The minutes of Mar. 2015 meeting had been amended, as agreed (84.3).

2 The Lessons Learnt Report had been placed on the Office drive on the network, to allow staff access (84.4).

- 3 A lessons learnt report considering governance aspects of the Elm Building project was on the agenda (84.4).
- 4 It was noted that the annual review of the College's bursary policy statement would be added to Corporation's summer term standing agenda item list at the review to be undertaken at Corporation's Dec. 2015 meeting. See also action 6 below (84.4).  
**Action: Clerk**
- 5 The College's risk register was on the agenda (84.4).
- 6 See response at action 4 above (84.5).
- 7 The internal audit Annual Report and the Follows Ups report were on the agenda (84.6).
- 8 The revised Assurance Map, including RAG-rating would be presented to the Nov. 2015 meeting of the Committee (84.7).  
**Action: Clerk**
- Further development of the plan (e.g. linking gaps in the College's Strategic Risk Register to the College Assurance Map) would take place during spring term 2016 for presentation to the Committee's Mar. 2016 meeting (84.7).  
**Action: SMR/Clerk**
- 9 Baker Tilly's financial statements/regularity audit plan for the year ending 31.7.15, including fees, was approved by Corporation at its July 2015 meeting (84.8).
- 10 The SFA/EFA consultation on the draft Joint Audit Code of Practice (JACOP), including revised Regularity Self-Assessment Questionnaire (SAQ) was e-mailed to Audit Committee members in July 2015. The new JACOP (in force from 1 Aug. 2015) and the College's completed 2014/15 SAQ were on the agenda (84.10).
- 11 The College's updated strategic risk register was approved by Corporation at its July 2015 meeting (84.12).
- 12 The College's Business Continuity Plan (BCP) and Critical Response Plan were approved by Corporation at its July 2015 meeting (84.13).
- 13 A verbal report on completion of the BCP desk-top exercise was presented to the July 2015 meeting of Corporation and a report to the Committee was on the agenda (84.13).
- 14 The Committee's revised terms of reference and standing agenda item list was approved at the Oct. 2015 Corporation meeting. They would, however, be reviewed at the Committee's Nov. 2015 meeting with reference to the new Joint Audit Code of Practice (84.14).  
**Action: Clerk**
- 15 The vacancy on the Audit Committee had been advertised at the Sept. 2015 meeting. The Search & Governance Committee were continuing to search for an external co-opted Committee member and/or an additional Corporation member (84.15).
- 16 A report on adoption of the English Colleges' Code of Good

Governance by sixth form colleges was on the agenda (84.16).

- 17 The 2014/15 internal audit Follow Ups report was on the agenda, as noted at action 7 above (84.17).
- 18 The dates of the Committee's 2015/16 meetings had been e-mailed to Audit Committee members and auditors (84.20).

## **85.6 Annual review of confidential minutes**

***It was noted that the Committee had produced no confidential minutes during 2014/15.***

### **Rolling implementation plan**

#### **85.7 Rolling implementation plan of internal auditors' recommendations**

The Committee noted that all recommendations arising from the Student Financial Support review (April 2015) had been implemented, with the following exception: the first of the termly reports on bursary expenditure was due to be presented to the College's senior management team (SMT) during autumn term 2015.

***The Committee received the updated rolling implementation plan of internal auditors' recommendations, noting that actions shown as completed would be reviewed during the internal audit Follow Ups review in 2016.***

#### **85.8 Rolling implementation plan of financial statements/regularity auditors' recommendations**

***The Committee noted that all recommendations arising from the financial statements/regularity auditors' report for the financial year ended 31.7.14 had been completed and would be followed up by the financial statements/regularity auditors as part of the audit for the financial year ended 31.7.15.***

### **Internal audit matters**

#### **85.9 Follow Ups Report**

Lesley Hill of the College's internal auditors, the East Coast Audit Consortium (ECAC) presented the Follows Up report arising from the 2014/15 internal audit plan, which was considered. Members noted that:

- Recommendations followed up related to the Enrolments & Tuition Fees/Fee Remission and the Transport Value for Money (VFM) reviews, together with an Equality & Diversity recommendation which had remained partially outstanding following the 2013/14 Follow Ups review;
- 6 of the 10 recommendations had been implemented at the date of the review.

Members discussed outstanding recommendations arising from the Enrolments & Tuition Fees/Fee Remission review, receiving a report from the Director of Network & Information Services, Bill Jackson, on the following actions taken in 2015/16: student hours had been checked on all enrolment forms in autumn 2015; processes relating to students eligible to pay fees had been reviewed for 2015/16 to ensure earlier identification and fee collection.

***The Committee received the 2014/15 Follows Up report, noting that the ECAC would review any outstanding actions during the 2015/16 Follow Ups Review.***

#### **85.10 Annual internal audit report 2014/15**

Benita Jones of the ECAC presented the internal audit report for 2014/15, which was considered.

Members noted that:

- While assurance could never be absolute, the ECAC were satisfied that sufficient internal audit work had been undertaken to allow them to offer a reasonable conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes;
- The ECAC had concluded that, based on the work carried out at the College in 2014/15, their overall opinion on the adequacy and effectiveness of the College's risk management, control and governance processes was Substantial assurance;
- 4 reviews had been undertaken as part of the 2014/15 review i.e. Student Financial Support (Limited assurance), Catering (Substantial assurance), Purchase Ledger CAATS (assurance level not applicable), Follow Ups (assurance level not applicable);
- The 2014/15 Follow Ups exercise had shown 6/10 recommendations implemented at the date of the review (2013/2014: 8/10 implemented, 1 partially implemented & 1 not applicable. 2012/13: 17/20 implemented, 2 partially implemented & 1 outstanding);
- There had been an increase in Grade 2 (significant) recommendations arising from reviews in 2013/14 and 2014/15, reflecting the move to a more risk-based approach in determining areas included in the annual internal audit plan to ensure reviews added value.

The section in the report on ECAC's quality assurance processes was noted.

***The Committee received the ECAC's annual internal audit report, noting the overall opinion of Substantial assurance and agreeing that the report should be presented to Corporation as an annex to the Committee's annual report.***

**Action: Chair/Clerk**

#### **85.11 Annual review of the internal auditors**

(Lesley Hill and Benita Jones of the ECAC left the meeting).

##### **(i) Review the cost of the IAS arrangements for 2014/15**

***The Committee reviewed the cost of the 2014/15 IAS audit, noting that it was as budgeted and that fees were competitive.***

##### **(ii) Review of additional work undertaken by internal auditors**

***The Committee noted that the internal audit service undertook no work in 2014/15 which was additional to the agreed internal audit plan.***

##### **(iii) Performance review 2014/15**

The Committee completed a positive review of the ECAC's performance during 2014/15.

***The Committee agreed that the 2014/15 internal audit performance checklist should be signed by the Chair of the Audit Committee, subject to Richard Lewis of financial statements/regularity auditors, Baker Tilly, confirming the answers to the statements relating to the relationship between the internal and financial statements/regularity auditors and that the latter took account of the work of the former.***

**Action: RL of Baker Tilly Clerk/Chair**

##### **(iv) Consideration of re-appointment of IAS auditors and agreement of their fees for recommendation to Corporation**

***Having completed the performance review of the internal audit service, the Committee agreed to recommend to Corporation the re-appointment of the East Coast Audit Consortium (ECAC) as internal auditors for 2015/16, subject to agreement of the 2015/16 internal audit plan, including fees.***

**Action: Clerk/Chair**

(Lesley Hill and Benita Jones of the ECAC returned to the meeting).

**85.12 Annual internal audit plan: discussion document**

**85.13 Regularity & propriety audit self-assessment questionnaire 2014/15**

**85.14 Auditor independence: addition to the Financial Regulations**

***The Committee agreed that agenda items 85.12-14 should be considered after Richard Lewis of Baker Tilly joined the meeting.***

#### **Committee & governance matters**

**85.15 AoC's English Colleges' Code of Good Governance**

***The Clerk reported that, initial indications were that most sixth form colleges nationally had not adopted the AoC's English Colleges' Code of Good Governance, although a higher proportion of colleges had adopted it in the NORVIC area. A further report would be given to the Committee's Nov. 2015 meeting.***

**Action: Clerk**

**85.16 Lessons Learnt report**

Members noted that the aim of the Lessons Learnt report form was to identify areas for improvement and areas that went well to enable those involved in a project to learn lessons for the future and to provide information for other staff members who might be involved in similar projects. It was noted that the June 2015 meeting of the Committee had asked the Clerk to provide a retrospective report on the 2013 Elm Building project using the Lessons Learnt Report form, considering the governance aspects of the project.

Members considered the Clerk's report noting, in relation to future projects, the importance of: a sufficient number of Corporation members with financial expertise; appropriate challenge by Corporation members; an accommodation strategy aligned to the College's strategic plan; recommendations accompanied by financial risk assessments; and a full options appraisal. It was noted in discussion that the Principal was currently drafting a College accommodation strategy. Local authority practice in producing draft plans for activation when grant funding became available was noted.

The Committee noted in discussion of the financing of the Elm Building project that the revolving credit facility from Barclays, which had been taken out to fund the project, was due to become fixed as a term loan in 2015, with the Corporation having agreed at its meeting on 1 Oct. 2015 to accept a proposal from Barclays to extend the revolving credit facility to 31 Oct. 2015 and an offer from Barclays to reduce quarterly capital loan repayments by extending the term of the loan to 13 years having been noted. The Director of Finance, Anna Lamplough, reported that in discussion of repayment options subsequently received from Barclays it had, however, become apparent that an error had been made in Barclays' facility letter of August 2013 which did not clearly state the potential amount of the lump sum final repayment. Members noted in discussion the potential implications for the College's budgeted surplus of increased quarterly capital loan repayments and it was noted that the matter would be presented to Corporation for further discussion and decision in due course.

Members discussed the construction of the Ash and Oak Buildings (which had pre-

dated the Elm Building project) and agreed that it would be useful for the Committee to receive, for information, documentation presented to the Learning & Skills Council following approval of the earlier project by Corporation.

**Action: Clerk**

***The Committee considered the retrospective report on the governance aspects of Elm Building project, agreed the following typographical amendments to the report: "2015" should read "2013".***

**Action: Clerk**

Members considered how the Lessons Learnt Report form should be used from 2015/16 onwards.

***The Committee agreed that the Director of Resources should use the Lessons Learnt Form to provide a retrospective report on the construction aspects of the Elm Building project and a report on the 2015 summer building works project. The Committee agreed that, when received, the Lessons Learnt Report from the Director of Resources, together with the report from the Clerk, should be presented to the Corporation, for information.***

**Action: AW**

#### **85.17 Committee checklist & Pls 2014/15**

The Committee completed its review of its 2014/15 performance checklist, noting that it was fully compliant but noting also with reference to the statement in the checklist that "The committee reviews the College's arrangements for ensuring VFM (value for money)" that the corresponding statement in the "Details" column was "The Audit Committee, in reviewing the work of the internal auditors, considers VFM issues in systems terms only". Members noted that Baker Tilly's briefing on Audit Committee reporting, which was due to be considered at agenda item 85.19(ii), noted that there was now an increased regulatory focus on VFM and that audit committees should therefore clearly demonstrate colleges' efficient and effective use of resources.

***The Committee completed its 2014/15 performance checklist and considered its 2014/15 performance indicators.***

***It was agreed that agenda items 85.12-14, and a response to the query at agenda item 25.11, should be considered at this point on the agenda.***

#### **Internal audit matters (continued)**

#### **85.12 Annual internal audit plan: discussion document**

The Committee considered the ECAC's internal audit plan 2015/16 discussion document, noting that the table showing possible areas for review also indicated the level of assurance shown in the College's Assurance Map.

The Committee noted that, while use of an internal audit service was not mandatory under the SFA/EFA Joint Audit Code of Practice, the Corporation had agreed, on the recommendation of the Audit Committee, to continue to appoint internal auditors. Members discussed possible areas for inclusion in the 2015/16 internal audit plan in detail, taking into account both their usefulness to College management and the primary need for the plan to provide assurance to the Audit Committee and the Corporation on controls so that Corporation could sign off the necessary assurances in the College's annual report and financial statements. Members emphasised the importance of the annual internal audit plan including sufficient days to enable the internal auditors to give an annual opinion, noting in discussion that 15-17 audit days was average for the sixth form colleges with which the ECAC worked.

Members considered external and internal assurances available to the Committee and Corporation in addition to the work undertaken by the College's auditors e.g. the

Skills Funding Agency (SFA) funding audit undertaken during autumn 2014, agreeing that (taking into account the positive outcome from the SFA review) that a student numbers/funding review would not therefore need to be included in an 2015/16 internal audit plan. Issues of independence where colleges did not have an internal audit service and relied on internal assurances, in addition to external assurances, were considered.

The Principal raised the possibility of including a VFM review on lettings income in the 2015/16 plan, which was discussed. The importance of ensuring that the College had other income streams, given expected cuts in public funding, was noted, with members also noting the importance of any internal audit review also considering the taxation implications of income generation from lettings.

Members noted in discussion that payroll had last been reviewed by the internal auditors in 2013 and agreed that a review should be included in the 2015/16 plan, given that pay expenditure was equivalent to about 63% of income.

The possibility of including a review of the implementation of staff development recommendations arising from the 2013 Ofsted inspection was also considered by members, either as standalone review or as part of a wider review of Ofsted recommendations. It was noted that should a pre-Ofsted review be included in the draft 2015/16 internal audit plan, this should be undertaken as early as possible in the internal audit review cycle and cancelled should Ofsted inspect the College before the scheduled internal audit date.

Members agreed that a review of student bursaries was not required, as recommendations relating to bursaries arising from the 2014/15 Student Financial Support review would be considered as part of the 2015/16 Follow Ups review.

***The Committee agreed an internal audit plan of 15 days, including contract management, should be the basis for the 2015/16 draft plan, agreeing also the following reviews for inclusion in the plan: Lettings (including from a VFM perspective); Payroll; Anti-fraud controls (Human Resources/Personnel); Pre-Ofsted review (including staff development actions arising from the 2013 Ofsted inspection report); Follow Ups. It was agreed that the draft plan should be presented to the Nov. 2015 meeting of the Committee for recommendation on approval to the Corporation.***

**Action: LH of ECAC/Clerk**

**85.11 Annual review of the internal auditors (continued)**  
(cont.)

***Richard Lewis of financial statements/regularity auditors, Baker Tilly, confirmed a positive relationship between the internal and financial statements/regularity auditors and that Baker Tilly took account of the work of the ECAC.***

**Financial statements & regularity audit matters**

**85.13 Regularity & propriety audit self-assessment questionnaire 2014/15**

Members considered the College's 2014/15 Regularity & propriety audit self-assessment questionnaire, which had been signed by the Chair of the Corporation and the Principal, noting that:

- A revised questionnaire had been introduced as part of the SFA/EFA Joint Audit Code of Practice in Aug. 2015;
- The questionnaire was used by Baker Tilly in carrying out the annual regularity review and was also presented to the Audit Committee;
- It was not required to be submitted to the EFA.

***The Committee received the College's completed 2014/15 Regularity &***

**Other audit matters**

**85.14 Auditor independence: addition to the Financial Regulations**

The Clerk reported that, under the Joint Audit Code of Practice (Aug. 2015), the Audit Committee must "inform the corporation of any additional services provided by the external auditor, reporting accountant and other assurance providers (if applicable) and explain how independence and objectivity were safeguarded". Members noted that the Audit Committee reviewed any additional services (e.g. consultancy work) undertaken by the auditors' annually as part of their performance review of the auditors' work.

The Committee noted that, while the SFA/EFA's Joint Audit Code of Practice did specify a financial limit in relation to additional services provided by the College's auditors, the Clerk was recommending that the Audit Committee might wish to consider recommending to Corporation the addition of such a limit to the College's Financial Regulations (as previously required under the Learning and Skills Council's Audit Code of Practice).

***The Committee agreed to recommend to Corporation that the following statement on additional services provided by the College's auditors should be added to the College's Financial Regulations: "As required under the Joint Audit Code of Practice, the Audit Committee must inform the Corporation of any additional services provided by the external or internal auditors and explain how independence and objectivity have been safeguarded. Any work undertaken by the College's auditors in addition to their normal audit duties should not amount to a sum greater than the cost of the annual audit or the sum of £20,000, whichever is the lower. Where the proposed fee for such services is within these limits, approval for the project may be given by the Director of Finance in consultation with the Chair of the Audit Committee, with a report presented to the next scheduled Audit Committee meeting. The Chair of the Audit Committee may, however, if they consider that the nature of the proposed project warrants it, require that the proposal should be referred to the Audit Committee for discussion or to the Corporation for approval before a contract is entered into".***

**Action: Clerk/Chair**

***It was agreed that the agenda should continue with consideration of agenda item 85.18.***

**Committee matters College annual reports**

**85.18 Annual report on fraud/bribery/irregularities/whistleblowing & policy review**

The Committee received the College's annual report on fraud, bribery, irregularities and whistleblowing, noting that:

- The Director of Finance had reported that there had been no incidences of fraud, bribery or irregularities during the period under review i.e. during 2014/15 or to date;
- The Clerk was aware of no whistleblowing events during 2014/15 or to date.

The Committee completed its annual review of relevant policies and procedures, noting that:

- The College had a Fraud & Bribery Policy (approved by Corporation, July 2014) and a Whistleblowing Policy (approved by the Personnel Committee Nov. 2013, ratified by the Corporation Feb. 2014) and that the College's Financial Regulations (approved by the Corporation in Mar. 2015 and revised and approved July 2015), also included sections on whistleblowing, gifts and hospitality, fraud and corruption, including bribery;
- The College's Whistleblowing Policy was due to be reviewed by Corporation's Personnel Committee on 2 Nov. 2015 with reference to government guidance issued in Mar. 2015.

Members considered, in this context, a report from Transparency International/Baker Tilly/Mishcon de Reya i.e. *Anti-Bribery Principles for Not-for-Profit Organisations* (Jan. 2014), which had been included on the agenda at Appendix A. Members noted with reference to the report that:

- The risk to the College arising from the implementation of the Bribery Act 2010 appeared to have remained low in 2014/15 e.g. overseas activities mainly related to established educational trips and visits, the College made use of a single agent in relation to the recruitment of overseas students, there were no associated persons who undertook work for the College, there were no donations/ gifting, the College had financial regulations and policies that covered fraud, irregularities, gifts and hospitality, bribery, whistleblowing;
- The report, however, advised that, where a college had assessed itself as at lower risk, periodic reviews should be carried out to check that bribery risks remain low and that the College's existing anti-bribery programme remained adequate, including reviewing the risk level where there was a change in circumstances (e.g. with reference to new activities in overseas countries) and that the College should carry out reasonable and proportionate due diligence on potential associates before entering into contracts with third parties, putting in place procedures for managing the associated risks on an on-going basis;
- The report also advised that periodic reports should be made to the Corporation.

***The Committee noted the College's annual report on fraud, bribery, irregularities and whistleblowing, including a review of relevant policies and procedures.***

#### **Funding body circulars & new regulations &/or documents from other external bodies**

##### **85.19 Review of funding body circulars and new regulations and/or documents from other external bodies**

**The Committee considered the following documents:**

- (i) The revised SFA/EFA JACOP (Aug. 2015) and Baker Tilly's briefing on the JACOP (Sept. 2015),
- (ii) Baker Tilly briefing on Audit Committee reporting (2015),
- (iii) Baker Tilly, FE/HE SORP,
- (iv) Transparency International/Baker Tilly/Mishcon de Reya report (Jan. 2014) on the implications of the Bribery Act 2010 (Sept. 2015).

With reference to (i) Richard Lewis drew members attention to the following 6 questions in the JACOP which aimed to help corporations test whether a transaction was both regular and proper: is the expenditure in the best interest of the college corporation; does the expenditure comply with approved procurement rules and policies; is there a valid benefit to the organisation from the expenditure and not just personal benefit to an employee; is the expenditure necessary; is the expenditure reasonable i.e. does it meet the identified and agreed needs; has the expenditure been properly authorised?

Members noted that the Clerk would take into account the guidance at (ii) when drafting the Audit Committee's Annual Report.

It was noted with reference to (iii) that the College's financial statements for the financial year ended 31 July 2015 would be the last to be prepared in the current format, as the new FE & HE SORP would apply to financial statements for the year ending 31 July 2016.

It was noted that issues arising from (iv) had been discussed at agenda item 85.18

above.

***The Committee received the above documents, for information.***

## **Appendix B**

### **85.20 Internal audit: Follow Ups report**

***It was noted that the above report had been considered earlier on the agenda at agenda item 85.9.***

### **85.21 Risk management report**

The Committee noted that the College's risk register had been reviewed and updated by the College's senior management team (SMT) and that the full risk register, including the strategic risk register, was being presented for review by the Committee.

Members noted the following changes which had been made to the register:

- A new Finance risk (FIN05) had been added to the strategic risk register relating to the risk of an adverse effect on the College's cash flow caused by the error in capital loan repayments in the Barclays Bank Facility Letter of August 2013 resulting in a reduction in other capital expenditure available, noting that existing controls included the 12-month rolling cashflow forecast and additional controls included revised financial modelling for 2016/17 and beyond;
- On the Infrastructure register, risk IT05 had increased to a score of 12 relating to the risk of adverse student perception of college IT facilities affecting student recruitment, with existing controls including equipment replacement as part of the capital expenditure process and additional controls the establishment of a rolling replacement/reassessment programme and IT equipment prioritised in the 2016/17 capital plan;
- On the External risks register, risk E4 had increased to a score of 20 (following a revised impact score of 4 and a likelihood score of 5) making it a major risk i.e. a risk of reduced funding caused by changing government policy, with existing controls including maintaining efficiencies and cost effective practices and additional controls including income generation, cost reduction and collaboration with other colleges (subject to Corporation approval).

The Committee noted with reference to the government's Area-Based Reviews of further education (FE) and sixth form colleges that the government's stated aim was larger, more financially sustainable colleges, although noting also that a 2008 report from the Department of Innovation, Universities and Skills (DIUS) had concluded that there was no necessary correlation between college size and financial sustainability and/or quality. It was noted that options for cost savings currently being considered by colleges nationally included mergers, federations, and shared services (e.g. in the areas of HR, finance, estates and IT). Members noted that colleges in the sixth form sector were continuing to consider the possible advantages of academy conversion (e.g. VAT exemption), although noting that conversion would result in a loss of colleges' current level of independence (e.g. due to academy accounts being consolidated into the Department for Education's accounts). Members discussed Area-Based Reviews with particular reference to the College's continuing increase in student numbers (which was against the general trend of declining student numbers for many colleges) and the fact that it was highly geared (borrowing to net assets ratio).

***The Committee received the College's updated risk register.***

### **85.22 Report on desk-top Business Continuity Plan (BCP) exercise**

The Committee received a verbal report from the Principal and Director of Finance on

the BCP desk-top exercise undertaken during summer term 2015, noting that the College Management Group (CMG) had considered the plan with reference to the possibility of a fire at exam time, and that desk-top exercises including other scenarios would be considered in due course.

***The Committee received a report on the College's 2015 desk-top Business Continuity Plan (BCP) exercise***

**85.23 Annual Data Protection/ Freedom of Information (FOI) report**

***It was noted that the above report would be given at the Committee's Nov. 2015 meeting.***

**Action: Clerk/WGJ**

**Final matters**

**85.24 Any other business**

***There was no other business.***

**85.25 Risk management – items identified at the meeting**

***The government's Area-Based Reviews of FE and sixth form colleges, which had been announced in July 2015, were identified as a new area of risk.***

**85.26 Date of next meeting**

***The Committee was next due to meet on Mon. 30 Nov. 2015 at 4.30pm.***

**85.27 Meeting of Committee with auditors without the presence of senior management**

**(Bill Jackson, Anna Lamplough, and Jay Trivedy left the meeting).**

Members discussed the process of agreeing the annual internal audit plan. The Committee re-iterated the importance of ensuring that the annual internal audit plan included sufficient days to enable the internal auditors to give an annual opinion which could contribute to the Audit Committee's opinion in its annual report and to the assurances on controls which would be signed off by Corporation in the College's annual report and financial statements. The value of the College's assurance map in determining areas to be included in the internal audit plan was noted.

**Action: Clerk**

The Committee discussed the progress of the annual financial statements audit, noting that Baker Tilly had received the draft annual financial statements 2 weeks before the start of the audit, which had begun on 19 Oct. 2015. Members discussed, with reference to the action relating to finance department staff qualifications in the Financial Management Processes and Controls review action plan, the level of support available to the Director of Finance.

The meeting of the Committee with the internal and financial statements auditors was concluded.

Fiona Bagchi  
Clerk to the Corporation

**AUDIT COMMITTEE  
MINUTES OF MEETING 86 HELD ON 30 NOVEMBER 2015**

**Present:** Philip Wright (Chair), John Gilleard, Martin Longbottom, John Shipley

**In attendance:** Lesley Hill (E. Coast Audit Consortium, internal auditors), Anna Lamplough (Director of Finance), Bill Jackson (Director of Network & Information Systems), Richard Lewis (RSM formerly Baker Tilly, regularity assurance & financial statements auditors), Jay Trivedy (Principal) Alan Woodcock (Director of Resources)

**Clerk:** Fiona Bagchi

**86.1 Apologies for absence**

*There were no apologies.*

**86.2 Declaration of interests**

***Standing declarations: Martin Longbottom declared that he was an employee of Hull College.***

***It was agreed that agenda items 16, 14, 6 and 23 should be considered at this point on the agenda.***

**86.16 The College's annual report & financial statements**

(John Shipley, Bill Jackson and Alan Woodcock joined the meeting during this item).

Members considered the College's annual report and financial statements for the year ended 31.7.15 to inform the Committee's review of the financial statements auditors' audit findings report and to consider the regularity assurance engagement conclusion, the statements on corporate governance, responsibilities of members of the Corporation and the system of internal control. The value of the opinion in the annual internal audit report in enabling the Committee to make a recommendation to the Corporation on the corporate governance and internal control statement was noted.

Members noted that the 2014/15 financial statements would be the last to be produced under the current FE & HE Statement of Recommended Practice (SORP) 2007, with the FE & HE SORP 2014 applicable to the financial year ending 31 July 2016. It was noted that SORP 2014 was consistent with Financial Reporting Standard (FRS) 102 and would require comparative 2015 figures to be re-stated to cover both the income and expenditure account for the year ended 31 July 2015 and the balance sheet as at 31 July 2015.

It was noted, with reference to the report in the Notes to the accounts on the East Riding Pension Fund (ERPF) that: there had been a full actuarial valuation of the fund at 31 March 2014 updated to 31 July 2015 by a qualified independent actuary; there had been an increase in the College's share of the overall scheme deficit from £363k as at 31 July 2014 to £638K at 31 July 2015.

***Having completed its review of the College's annual report and financial statements for the year ended 31.7.15 and taking into account the positive outcome of the 2014/15 internal audit report and of the financial statements audit findings report to be considered at agenda item 14, the Committee agreed to recommend that it was***

***appropriate for the Chair of Corporation and the Principal to sign the statement of corporate governance and internal control, and the statement on regularity, propriety and compliance with funding body terms and conditions of funding and for the Chair of Corporation to sign the statement of responsibilities of members of the Corporation.***

**Action: Chair**

#### **86.14 Financial Statements Audit Findings Report**

Richard Lewis of financial statements/external auditors RSM UK Audit LLP (formerly Baker Tilly) presented the Final Audit Findings Report for the year ended 31 July 2015.

Members considered the report and noted that:

- RSM anticipated issuing an unqualified opinion on the financial statements and no modifications to the regularity assurance report, following satisfactory clearance of outstanding matters, including a discussion with the Chair of Corporation later in the current week;
- Unadjusted/adjusted misstatements, including the release unspent Education Funding Agency (EFA) Free Meals in FE, which had been held on the balance sheet, to the Income & Expenditure account.

Members noted that recommendations arising from the 2014 audit had been completed and discussed recommendations arising from the 2015 audit agreed with management on updating the College's Redundancy Policy and producing an accommodation strategy.

***Members received the Final Audit Findings Report and agreed that it should be presented to the Corporation as an appendix to the Committee's Annual Report.***

**Action: Chair**

#### **86.6 Annual report on data protection & freedom of information**

Bill Jackson, Director of Network & Information Systems, presented the College's 2014/15 annual report. Members noted that there had been no data protection incidents and discussed freedom of information requests received.

***The Committee received the College's 2014/15 data protection & freedom of information report.***

(Bill Jackson left the meeting).

#### **86.23 Lessons learnt reports on building projects in 2013 & 2015**

The Director of Resources, Alan Woodcock, presented a retrospective report on the 2013 Elm Building project and a report on the outcome of the 2015 summer works, using the lessons learnt report format, as agreed. It was noted that the Director of Finance retained full documentation for the 2013 project which could be reviewed by members, if required.

Members noted, in discussion, with reference to the outcome of the 2013 Elm Building project that there had been positive and negative lessons to be learnt e.g. the project had offered quality and value for money but the truncated timescale from approval to delivery had resulted in some negative impacts e.g. in relation to time available for planning. It was noted that the 2015 summer works (art wing conversion) project had offered quality work achieved within budget and (with the exception of the heating works) within deadlines set.

***The Committee received the lessons learnt reports on building projects in 2013 and 2015, noting that the information contained in the reports could be used for reference in relation to future projects.***

(Alan Woodcock left the meeting).

#### **Minutes & matters arising**

#### **86.3 Minutes of meeting 85 held on 14 Oct. 2015**

***The minutes of meeting 85 held on 14 Oct. 2015 were approved.***

#### 86.4 Matters arising and action table

(Matters arising below are numbered according to their position in the Action Points table appended to the end of the minutes of the previous meeting. The reference to where the action can be found in the minutes is given in brackets at the end of each item).

- 1 The Clerk would add the annual bursary policy review to Corporation's summer term standing agenda item list at the review to be undertaken at Corporation's Dec. 2015 meeting (85.5).  
**Action: Clerk**
- 2 A Red-Amber-Green (RAG) rated version of the assurance map was on the agenda. Further development of the plan (e.g. linking gaps in the College's Strategic Risk Register to the College Assurance Map) was planned from spring 2016 (85.5).  
**Action: Director of Finance**
- 3 Review of the Committee terms of reference and standing agenda item list, including with reference to the new Joint Audit Code of Practice, was on the agenda (85.5).
- 4 The Internal audit report 2014/15 would be included as an annex to the Committee's Annual Report for presentation to Corporation in Dec. 2015 (85.10).  
**Action: Clerk**
- 5 The Chair had signed the internal auditors' performance checklist 2014/15, following confirmation from Richard Lewis of a positive relationship between the ECAC and RSM and that the latter took account of the work of the former (85.11).
- 6 A further report on the English Colleges' Code of Good Governance was on the agenda (85.15).
- 7 A report on documentation relating to the building of the Oak and Ask Buildings had been given under agenda item 23, which had been considered earlier on the agenda (85.16).
- 8 Typographical errors in the lessons learnt report on the governance aspects of the Elm Building project had been amended, as agreed (85.16).
- 9 The Director of Resources had completed a lessons learnt report for the 2013 Elm Building project and the 2015 summer building works project, which had been considered earlier on the agenda (85.16).
- 10 The draft internal audit plan was on the agenda. It was noted that as the College's senior management team (SMT) had, however, agreed since the Oct. 2015 meeting of the Committee to appoint a former Ofsted inspector to conduct a pre-Ofsted review, a replacement for the pre-Ofsted review included in the draft plan would be considered later on the agenda (85.12).
- 11 A recommendation from the Committee on an amendment to the Financial Regulations concerning auditor independence was on the agenda of the Dec. 2015 Corporation meeting (85.17).  
**Action: Chair**
- 12 The College's Whistleblowing Policy had been reviewed by Corporation's Personnel Committee at its 2 Nov. 2015 meeting with reference to government guidance issued in Mar. 2015. It was noted that the policy had been found to be generally compliant with the guidance and it had been

agreed that the policy, with minor revisions, should be returned to the Personnel Committee's Jan. 2015 for approval (85.18).

- 13 The College's annual Data Protection & Freedom of Information (FOI) report had been considered earlier on the agenda (85.23).
- 14 The value of the College's assurance map in determining areas to be included in the internal audit plan had been noted at the Committee's Oct. 2015 meeting and it had been agreed that the map should therefore be included on all agendas including review of draft internal audit plans. As the internal audit plan was due to be considered for revision later on the agenda, the updated assurance map had been included as an agenda item, for information (85.27).

#### **Rolling implementation plan**

##### **86.5 Rolling implementation plan of internal audit recommendation**

*The Committee received the rolling implementation plan of internal auditor's recommendations noting that the remaining action, which related to the introduction of a termly report to SMT on student support, had been completed.*

#### **College annual reports**

##### **86.6 Annual report on data protection & freedom of information**

*It was noted that this item had been considered earlier on the agenda*

#### **Risk management**

##### **86.7 Review of strategic risk register**

The Committee considered the strategic risk register, noting that, while the impact of government policy was noted in general in the register, the Government's Area Based Reviews (ABRs) were not specifically referenced.

*The Committee received the strategic risk register for information, agreeing that the Director of Finance should consider the need to include a reference to ABRs in the next update of the strategic risk register.*

**Action: Director of Finance**

##### **86.8 Format for project management cover sheet, incl. risk management**

*The Committee approved the project management cover sheet for recommendation to Corporation.*

**Action: Clerk**

(John Gilleard left the meeting).

#### **Financial controls reports**

##### **86.9 Review draft Statement of Internal Financial Control Checklist**

Members considered the checklist, noting that it related to the financial year ended 31.7.15, with actions identified relating to 2014/15 (i.e. as a result of the previous year's review) and to 2015/16.

It was noted in response to members' questions concerning evidence for:

- E1.2 (What systems are in place to ensure entries into the accounting records are properly authorised?) that this now included journals authorised by the Director of Finance;
- A1.5 (How are competencies defined and satisfied for key financial posts?) that the Assistant Accountant had begun an AAT qualification in Sept, 2015;
- A.3.3 (How does the culture of the college contribute to effective internal financial control?) that improvement in this area, following the appointment of the current

Director of Finance, included more effective cash management and monitoring of financial transactions (e.g. removal of parallel cash accounts, a month end close down timetable), proposals to SMT were better documented and supported by financial information, minuting of SMT decisions had improved, there was more oversight and challenge by Corporation members;

- D1.2 (What processes are in place to assist with deciding between conventional capital procurement and using private finance initiative (PFI) solutions?), the Director of Finance was a member of the College's SMT and had input into financial discussions and recommendations to be presented to Corporation.

***The Committee received the College's 2014/15 Statement of Internal Financial Control checklist, for information, noting that this was one of the College documents which the Committee reviewed annually and which contributed to its annual opinion on controls.***

***It was agreed that the 2014/15 Statement of Internal Financial Control checklist, signed by the Principal, should be filed with the Audit Committee's papers.***

**Action: Clerk**

#### **86.10 Review of Financial Management Control Evaluation (FMCE) 2014/15**

The Committee considered the College's 2014/15 FMCE, noting that the action remaining from the 2013/14 FMCE concerning the production of a project management cover sheet had been dealt with at agenda item 8 above. It was noted that completion of the FMCE was now optional for sixth form colleges but the Committee had decided that it should continue to be completed annually as it contributed to the Committee's annual opinion on internal controls.

Members discussed, with reference to the FMCE question on the resourcing of the finance department, finance department staff expertise/qualifications in general and whether current resourcing was appropriate. Members also discussed the issue of ensuring appropriate segregation of duties in a small finance department and what assurances were available to the Committee in this respect e.g. through audit reports. It was noted that a review of the draft 2015/16 internal audit plan would be considered later on the agenda. The Committee considered whether the overall grade of Satisfactory remained appropriate.

***The Committee received the College's FMCE 2014/15, noting that this was one of the College documents which the Committee reviewed annually and which contributed to its annual opinion on controls.***

#### **86.11 Other control matters**

***The Committee noted that the College's Tier 4 sponsor status had been restored, following an appeal concerning a failure to submit the annual compliance assessment return by the required deadline, and the return had now been submitted.***

**Financial statements / regularity audits & review of annual members' report & financial statements**

#### **86.12 RSM (formerly Baker Tilly) financial statements audit & regularity assurance report letter of engagement**

The Committee noted that the revised letter of engagement conformed to the requirements of the revised Joint Audit Code of Practice.

***The Committee agreed that the revised letter of engagement should be signed by the Chair of the Audit Committee, as permitted under authority delegated by Corporation in the Committee's terms of reference.***

**Action: Chair**

#### **86.13 Addendum to RSM (formerly Baker Tilly) audit plan**

***The Committee noted an addendum to RSM's audit plan relating to the regularity***

*assurance engagement.*

**86.14 Financial Statements Audit Findings Report**

*It was noted that this item had been considered earlier on the agenda.*

**86.15 Financial statements audit and regularity assurance engagement: letters of representation for recommendation to Corporation**

*The Committee agreed to recommend the financial statements audit and regularity assurance engagement letters of representation to Corporation for approval and signing.*

Action: Chair

**86.16 The College's annual report & financial statements**

*It was noted that this item had been considered earlier on the agenda.*

**86.17 Determine documents to be sent to the EFA**

*The Committee noted that, following presentation to and/or approval by the Corporation as appropriate, the following would be submitted to the EFA by 31.12.15: the College's annual report & financial statements, the finance record, RSM's audit findings report, the Audit Committee annual report (which included the internal audit report as an appendix), noting that submission in 2015 would be via a password-accessed portal rather than by e-mail.*

Action: Director of Finance/Clerk

**Internal audit matters**

**86.18 Draft internal audit plan for recommendation to Corporation**

Members noted that, as the College intended to employ a former Ofsted inspection to conduct a review, it was proposed that the pre-Ofsted review should be removed from the draft plan and a replacement review agreed.

*The Committee discussed the importance of regular reviews of key financial controls where a finance department was small and there was therefore less segregation of duties and agreed that a review of key financial controls should be added to the draft internal audit plan 2015/16 to replace the pre-Ofsted review, agreeing also that the Chair of the Audit Committee should discuss, by e-mail, the scope of the review with Lesley Hill of the ECAC.*

Action: Chair,/LH (ECAC)

*The Committee agreed to recommend to Corporation for approval the amended draft internal audit plan 2015/16.*

Action: Chair

**86.19 College assurance map**

*The Committee received the College's updated assurance map, noting that it was now Red-Amber-Green (RAG) rated.*

**Governance matters**

**86.20 Report on English College's Code of Governance**

*The Committee agreed that the Clerk should map the College's practice against the Code, with reports to be made to the Committee's Mar. and June 2016 meetings to enable the Committee to make a recommendation on whether the Code should be*

## Appendix A

### 86.21 Audit Committee's annual report to Corporation, the Principal & the EFA

*The Committee considered its draft annual report, noting the overall positive opinion, and agreeing a minor typographical amendment at paragraph 3.2.*

*The Committee approved its annual report for 2014/15, amended as agreed, and agreed that it should be signed by the Chair of the Audit Committee for presentation to Corporation at its Dec. 2015 meeting before Corporation's consideration of the College's annual financial statements.*

Action: Clerk/Chair

### 86.22 Review Committee terms of reference & standing agenda item list

*The Committee approved amendments to the Committee's terms of reference & standing agenda item list, reflecting the SFA/EFA Joint Audit Code of Practice (JACOP) in force from 1.8.15 and the Committee's current practice and agreed to recommend them to Corporation for approval.*

Action: Chair

### 86.23 Lessons learnt reports on building projects in 2013 & 2015

*It was noted that this item had been considered earlier on the agenda.*

## Funding body circulars & new regulations &/or documents from other external bodies

### 86.24 Documents from external bodies

*The Committee reviewed Eversheds' model Anti-Corruption & Bribery Policy and agreed that the Clerk should draft an appendix to the College's Fraud & Bribery Policy which further defined bribery and was cross referenced to the College's Financial Regulations.*

Action: Clerk

## Final matters

### 86.25 Any other business: Government Spending Review & academy conversions

Members noted that:

- The Government had published a Spending Review and Autumn Statement on 25.11.15;
- Funding for a full 16-19 student programme was expected to remain at £4k for this parliament;
- The Government had also announced it would permit sixth form colleges (SFCs) to become academies but details were awaited.

Members discussed sixth form colleges (SFCs) converting to academies, noting that conversion would result in them giving up their current independence and returning to the public sector e.g.

- Academy accounts were consolidated into public sector accounts;
- Consent for short and/or long-term borrowing by academies was required from the Secretary of State;
- Accounting was under the Charities SORP (rather than the FE & HE SORP); and
- Annual financial returns had to be submitted to the EFA and filed with Companies House.

Members discussed issues relating to academy admission and academy governor/director liability, where these differed from SFCs, and the move from single academies to Multi-Academy Trusts (MATs).

***The Committee considered the implications of the Government's Nov. 2015 Spending Review and Autumn Statement and of sixth form colleges becoming academies.***

**86.26 Risk management – items identified at the meeting**

***The following new area of risk was noted: Area Based Reviews (ABRs).***

**86.27 Date of next meeting**

***The Committee was next scheduled to meet on Mon. 14 March 2016 at 4.30pm.***

**86.28 Meeting of Committee with auditors without the presence of senior management**  
(The Principal and the Director of Finance left the meeting).

Members noted that the financial statements/external auditors considered that the Director of Finance had appropriate experience and that financial information provided during the audit had been good.

Members discussed, with the auditors, finance department staff expertise/qualifications in general, in relation to ensuring appropriate segregation of duties in relation to controls (as discussed at agenda items 86.10 and 86.12 above) and in relation to ensuring best use of the Director of Finance's strategic skills, [*confidential minute*].

Fiona Bagchi  
Clerk to the Corporation

**AUDIT COMMITTEE  
MINUTES OF MEETING 87 HELD ON 14 MARCH 2016**

**Present:** Philip Wright (Chair), John Gilleard, John Shipley

**In attendance:** Lesley Hill (E. Coast Audit Consortium, internal auditors), Anna Lamplough (Director of Finance), Bill Jackson (Director of Network & Information Systems), Jay Trivedy (Principal)

**Clerk:** Fiona Bagchi

**87.1 Apologies for absence**

*Apologies were received from Martin Longbottom (Committee Vice-Chair) and from Richard Lewis (RSM formerly Baker Tilly, regularity assurance & financial statements auditors).*

**87.2 Declaration of interests**

*There were no declarations of interest.*

**Minutes & matters arising**

**87.3 Minutes of meeting held on 30 Nov. 2015**

*The minutes of the meeting held on 30 Nov. 2015 were approved.*

**87.4 Matters arising and action table**

(Matters arising below are numbered according to their position in the Action Points table appended to the end of the minutes of the previous meeting. The reference to where the action can be found in the minutes is given in brackets at the end of each item).

- 1 The Chair and Principal had signed the College's annual report and financial statements for the year ended 31.7.15, following approval at the Corporation's Dec. 2015 meeting (86.4).
- 2 The Audit Findings Report had been presented to the Dec. 2015 Corporation meeting as an appendix to the Committee's Annual Report (86.4).
- 3 An annual review of the College's bursary policy had been included in Corporation's revised standing agenda item list, which was approved by the Corporation at its Dec. 2015 meeting (86.4).
- 4 The Corporation had approved at its Dec. 2015 meeting, an amendment to the Financial Regulations concerning auditor independence (86.4).
- 5 The updated assurance map was on the agenda and included links to the risk register in the Issues/Notes column (86.4).
- 6 The internal audit report 2014/15 had been included as an annex to the Committee's Annual Report and was presented to Corporation in Dec. 2015 (86.4).

- 7 A specific reference to Area Based Reviews (ABRs) had been included in the updated strategic risk register, which was on the agenda (86.7).
- 8 The project management cover sheet had been approved by the Corporation at its Dec. 2015 meeting (86.8).
- 9 The 2014/15 Statement of Internal Financial Control checklist, signed by the Principal, had been filed with the Audit Committee's papers (86.9).
- 10 The revised letter of engagement was signed by the Chair of the Audit Committee at the Committee's Nov. 2015 meeting (86.12).
- 11 The financial statements audit and regularity assurance engagement letters of representation to RSM were approved by Corporation at its Dec. 2015 meeting (86.15).
- 12 The following had been submitted to the Education Funding Agency (EFA) by 31.12.15: the College's annual report & financial statements, the finance record, RSM's audit findings report, the Audit Committee annual report (which included the internal audit report as an appendix) (86.17).
- 13 A review of key financial controls was added to the draft internal audit plan 2015/16. The Chair of the Audit Committee had discussed the scope of the review with Lesley Hill of the ECAC and the results had been sent by e-mail to Audit Committee members, for comments (86.18).
- 14 The amended draft internal audit plan 2015/16 was approved by the Corporation at its Dec. 2015 meeting (86.18).
- 15 A review of the appropriateness of adopting the Code of Good Governance for English Colleges was on the agenda (86.20).
- 16 The Chair had signed the Committee's annual report 2014/15 which was presented to the Corporation at its Dec. 2015 meeting before Corporation's consideration of the College's annual financial statements (86.21).
- 17 The Committee's revised terms of reference and standing agenda item list had been approved by the Corp. at its Dec. 2015 meeting (86.22).
- 18 A report on the development of an appendix to the College's Fraud & Bribery Policy was on the agenda (86.24).

### **Rolling implementation plan**

#### **87.5 Rolling implementation plan of external audit recommendations**

The Committee received a progress report on actions arising from the 2015 financial statements audit.

Members noted:

- With reference to actions relating to the College's Redundancy Policy that, while revisions to the policy had been approved by the Personnel Committee in Jan. 2016 (under authority delegated by the Corporation), a further updating revision would be required following a revision to the College's Financial Regulations approved by Corporation in Mar. 2016, with the revision to be considered at the Personnel Committee's June 2016 meeting;
- Corporation had approved an accommodation strategy statement in Dec. 2015 which confirmed that further accommodation changes must be financed by grant, sponsorship or reserves rather than borrowing;
- The Director of Resources would develop small scale projects (e.g. social/ refectory

space etc) to be used should capital grant become available.

Members noted that the College's overarching accommodation strategy did not refer to temporary accommodation procedures (i.e. procedures which would be followed should student recruitment exceed forecast), as detailed in the recommendation arising from the financial statements audit, although the College's Business Continuity Plan (BCP) did include information on arrangements should temporary accommodation be required.

***The Committee received a progress report on actions arising from the 2015 financial statements audit.***

## **IT security report**

### **87.6 Network security report**

The Director Network & Information Systems, Bill Jackson, presented a report on a recent breach of network security. The report was discussed, with the Committee noting that a report had also been made to the Corporation's Finance and General Purposes (F&GP) Committee. Members noted that the College had submitted a data protection breach notification form, in relation to a data protection issue arising from the network security breach, to the Information Commissioner's Office (ICO) and that the Director Network & Information Systems had recently received written confirmation from the ICO that the case would remain on file but did not meet the criteria set out in its regulatory action policy and did not require it to take further action.

*[Confidential].*

The Committee noted actions taken by the College to improve network security, which were detailed in the Director Network & Information Systems' report. It was noted that the College had been working closely with Humberside Police's Cybercrime Unit, which had been established in Nov. 2015.

***The Committee received a report on a recent breach of network security, noting that the Information Commissioner's Office (ICO) had confirmed that no action would be taken on an associated data protection breach which the College had self-reported.***

(Bill Jackson, Director Network & Information Systems, left the meeting).

## **Risk management & assurance map**

### **87.7 Review of College's strategic risk register**

***The Committee reviewed the College's updated strategic risk register, noting the removal of risks which were no longer applicable and that the existing and additional controls columns relating to the Business Continuity and Critical Response Plans had been updated.***

### **87.8 Review of College's assurance map**

The Committee undertook its annual review of the College's assurance map, noting that it had been cross referenced to the College's strategic risk register, as agreed.

The Committee agreed the following updating changes to the assurance map:

- A reference to Corporation members having completed Prevent Duty training;
- With reference to international student recruitment, rating the RAG-rated assurance level as Amber.

**Action; Clerk**

***The Committee completed its annual review of the College's assurance map, agreeing updating changes and that the updated version of the map should be presented to the Oct. 2016 meeting of the Committee for review with the draft internal audit plan.***

**Action: Clerk**

## Internal audit

### 87.9 Internal audit 2015/16

Lesley Hill of the College's internal auditors, the East Coast Audit Consortium (ECAC), presented a progress report on the 2015/16 audit, noting that the first review from the College's 2015/2016 internal audit plan (i.e. the Key Financial Controls review) had been undertaken in Feb. 2016 and that the remaining fieldwork was due to be completed in Apr./May 2016.

#### (i) Key Financial Controls

Members noted that:

- The Key Financial Controls review had sought to confirm, through testing, that key controls continued to be applied in the following areas: Sales Ledger; Purchase Ledger; Treasury Management; Asset Register and General Ledger;
- The Key Financial Controls review had awarded a grade of substantial assurance;
- The results of the audit testing were generally positive and ECAC were able to offer Substantial Assurance that key financial controls continued to be applied;
- 5 recommendations had arisen from the review i.e. 4 recommendations graded at the lowest grade of *Requires Attention (Grade 3)*, one recommendation graded *Significant (Grade 2)* and no recommendations graded at the highest grade of *Fundamental (Grade 1)*.

Members noted in discussion that:

- 2 of the recommendations graded 3 related to the sales and purchase ledgers i.e. that the credit balances on the sales ledger should be investigated and cleared and that all debit balances on the purchase ledger should be reviewed and cleared;
- The management response noted that explanations for credit and debit balances were sought by the Director of Finance monthly when the reconciliation was reviewed and steps would be taken to ensure that balances were cleared, as appropriate;
- With reference to the grade 2 recommendation relating to the purchase ledger and the strengthening of controls over the addition/amendment of supplier details, it was noted that an independent review of changes to bank account details was already in place and would be extended to all changes;
- With reference to the grade 3 recommendation relating to a very minor discrepancy of just over £3 on the petty cash balance, that the petty cash float was reconciled monthly and, with no discrepancies having been noted since the Director of Finance's appointment, the discrepancy was considered to be an isolated case which would have been reviewed in due course at the month end.

Members discussed the grade 3 recommendation that the Audit Committee should consider whether the level of risk currently posed as a result of journals posted by the Director of Finance not being independently reviewed/authorised was acceptable or whether additional controls should be put in place.

***The Committee agreed that given the size of the College finance team and the level of expertise available within the team, the risk posed as a result of journals posted by the Director of Finance not being independently reviewed/authorised was acceptable given the independent scrutiny of the financial statements and ledger at the year-end.***

It was noted in response to members' questions concerning how the Key Financial Controls review had considered the raising of invoices by the finance department that:

- The outcome of the test to ensure that sales invoices were authorised, had resulted in confirmation that sales invoices had been raised by the finance department in response to the receipt of supporting information from College budget-holders;
- A sample of 20 sales invoices had been reviewed and it was confirmed that each had been raised on an accurate and timely basis with adequate supporting information;
- Budget-holders were able to review whether invoices had been raised through the College's online Budget-holder Statement system;
- There was only a small number of College budget-holders.

It was noted in response to members' questions concerning how ECAC would approach a review which considered how adult home student fees were invoiced that the review would begin by considering MIS enrolment data for fully-funded and co-funded students and then review evidence of their status and that the latter were being invoiced for fees.

It was noted in response to members' questions concerning audit review sample sizes that:

- Sample size was determined by the scale of the operation and the time allocated for a review but, should any issues of concern arise from the review of a particular sample, a larger sample would be reviewed;
- Samples were not always random e.g. to ensure adequate coverage all budget areas might need to be reviewed;
- Sampling tools would be used where appropriate e.g. DSAT software could be used to generate a sample for learner numbers reviews.

It was noted in response to members' questions concerning the review of whether tenders/quotes had been sought in line with Financial Regulations, which had been undertaken as part of the Key Financial Controls review, that:

- The outcome of the review had been positive;
- The Director of Finance currently reviewed all orders prior to their being placed by the College, which meant that the Director of Finance had oversight of the College's purchases and was in a position to challenge any orders which might not represent value for money (VFM);
- Review of any due diligence undertaken on potential contractors had not been within the scope of the review.

***The Committee received the internal audit report arising from the review of Key Financial Controls, noting that recommendations arising from the review had been actioned or were in the process of being actioned and their implementation would be reviewed by the internal auditors as part of the Follow Ups review included in the 2016/17 internal audit plan.***

#### **Financial statements & regularity assurance audit**

##### **87.10 Performance review of regularity assurance & financial statements/external auditor incl. review of cost of the 2014/15 audit**

The Committee completed a positive review of the performance in 2014/15, of RSM (formerly Baker Tilly) as regularity assurance & financial statements/external auditor, noting that fees were as agreed.

***The Committee completed the regularity assurance & financial statements/external auditor checklist and agreed that the final version of the Checklist should be returned to the June 2016 meeting of the Committee to be signed by the Chair.***

**Action: Clerk/Chair**

##### **87.11 Consideration of re-appointment of RSM (formerly Baker Tilly) as regularity assurance & financial statements/external auditor, subject agreement of 2016 audit plan & fees**

***Following the positive performance review noted at 87.10 above, the Committee agreed to recommend to the Corporation that RSM should be re-appointed as regularity assurance & financial statements/external auditor, subject to agreement of the audit plan for the financial year ended 31.7.16 and agreement of fees.***

**Action: Chair**

#### **Deferred items: governance matters & policies**

##### **87.12 Review of Code of Good Governance for English Colleges**

The Committee noted that the Clerk was recommending that a review of the appropriateness of adopting the Code of Good Governance for English Colleges for use by the College should be deferred, given that the College was now reviewing strategic options in preparation for the Area Based Review process, including academy conversion. Members noted that the Code had been designed with reference to the FE sector and was not, for example, was not

completely applicable to sixth form colleges and did not apply to academies.

***The Committee agreed that a review of the appropriateness of adopting the Code of Good Governance for English Colleges should be deferred pending the outcome of the Area Based Review (ABR) process which was due to start in autumn 2016.***

**Action: Clerk**

#### **87.13 Revisions to College's Fraud & Bribery Policy**

***The Committee agreed that revisions to College's Fraud & Bribery Policy should be deferred to the Committee's June 2016 meeting.***

(The Director of Finance, Anna Lamplough, joined the meeting. The Principal, Jay Trivedy, left the meeting).

### **Appendix A: funding body circulars & new regulations &/or documents from other external bodies**

#### **87.14 Documents from external bodies**

The Committee considered the following documents from external bodies: (i) Education Funding Agency (EFA) financial returns letter (Mar. 2016), (ii) Prevent Duty & TACT 2000 - terrorism & fund-raising, (iii) Eversheds' e-briefing on bribery & self-reporting (Dec. 2015).

##### (i) Education Funding Agency (EFA) financial returns letter (Mar. 2016)

The Committee noted that the Education Funding Agency (EFA) letter stated that, following receipt of the College's audited and signed financial statements for the financial year ended 31 July 2015, the EFA had confirmed that the College's financial health grade for 2014/15 was Satisfactory, which agreed with the College's self-assessment.

##### (ii) Prevent Duty & TACT 2000 - terrorism & fund-raising

Members noted a Charity Commission alert concerning the legal requirement to report certain terrorist financing offences under the Terrorism Act 2000 (TACT) had mainly been concerned with charities that operated overseas but that TACT section 19 would also require a college to report any suspicions or beliefs concerning charitable donations passed to terrorist groups e.g. following campus collections. The Committee noted in discussion that charitable collections, by the Student Association Executive, for example, would be for registered charities and that receipt of funds collected would normally be certified by a letter from the charity.

***The Committee considered the College's Prevent Duty risk assessment action plan, and agreed that consideration should be given to referring to the College's practice in relation to charitable collections on campus in the section on fund-raising.***

**Action: Clerk/JD**

##### (iii) Eversheds' e-briefing on bribery & self-reporting (Dec. 2015)

The Committee noted an e-briefing from Eversheds on a deferred prosecution agreement between the Serious Fraud Office and a bank relating to an offence under the Bribery Act 2010, noting Eversheds' advice on the importance of organisations instigating investigations and self-reporting to regulators as soon as possible after any suspected breach of the Act. The Committee noted that Eversheds' general advice on investigations and self-reporting had a wider general application on the approach to be taken following suspected breaches of laws and regulations which went beyond the requirements of the Bribery Act e.g. the College's actions in relation to the data protection issue considered at 87.6 above had conformed to this approach.

***The Committee considered documents from external bodies relevant to the Committee's remit.***

**Final matters**

**87.15 Any other business**

*There was no other business not already on the agenda.*

**87.16 Risk management – items identified at the meeting**

*The Committee noted that IT security was not included in the strategic risk register but that the College had a separate IT risk register.*

**87.17 Date of next meeting**

*It was noted that the Committee was next due to meet on Mon. 13 June 2016 at 4.30pm.*

**87.18 Meeting of Committee with auditors without the presence of senior management**

*The Committee that a meeting with the auditors without the presence of senior management was not required.*

Fiona Bagchi  
Clerk to the Corporation

**AUDIT COMMITTEE  
MINUTES OF MEETING 88 HELD ON 13 JUNE 2016**

**Present:** Philip Wright (Chair), John Gilleard, John Shipley

**In attendance:** Lesley Hill (E. Coast Audit Consortium, internal auditors), Anna Lamplough (Director of Finance), Ashley Hepton (RSM, external auditors), Jay Trivedy (Principal)

**Clerk:** Fiona Bagchi

**88.1 Apologies for absence**

*Apologies were received from Martin Longbottom (Committee Vice-Chair) and from Richard Lewis (RSM, regularity assurance & financial statements auditors).*

**88.2 Declaration of interests**

*There were no declarations of interest.*

**Minutes & matters arising**

**88.3 Minutes of meeting held on 14 Mar. 2016**

*The minutes of the meeting held on 14 Mar. 2016 were approved with the following minor typographical amendments: at the minute of agenda item 87.9, the reference in the heading to 2014/15 and in the first sentence should be to 2015/16 The minutes of the meeting held on 30 Nov. 2015 were approved.*

**Action: Clerk**

**88.4 Matters arising and action table**

(Matters arising below are numbered according to their position in the Action Points table appended to the end of the minutes of the previous meeting. The reference to where the action can be found in the minutes is given in brackets at the end of each item).

- 1 The Committee noted that it had been agreed at the Committee's Mar. 2016 meeting that the appropriateness of adopting the Code of Good Governance for English Colleges (which was designed with reference to the FE sector) for use by the College should be deferred, given that the College was now reviewing strategic options in preparation for the Area Based Review process, including academy conversion (87.4 & 87.12).

**Action: Clerk**

- 2 The Committee noted that it had been agreed that an appendix to the College's Fraud & Bribery Policy which further defined bribery and which was cross referenced to the College's Financial Regulations, should be developed. It was noted that the draft appendix would be presented to the Committee's Oct. 2016 meeting (87.4 & 87.13).

**Action: Clerk**

- 3 The College's assurance map had been updated, as agreed (87.4 & 87.8).

- 4 The updated College assurance map would be presented to the Oct. 2016 meeting of the Committee for review with the draft internal audit plan, as agreed (87.4 & 87.8).

**Action: Clerk**

- 5 The completed regularity assurance & financial statements/external auditor checklist was signed by the Chair of the Audit Committee (87.11).
- 6 As suggested by the Committee at its Mar. 2016 meeting, a reference to the College's practice in relation to charitable collections on campus had been included in the section on fund-raising in the College's updated Prevent Duty risk assessment (87.4 & 87.14).

### **Rolling implementation plan**

#### **88.5 Rolling implementation plan of external audit recommendations**

The Committee received a progress report on actions arising from the 2015 financial statements audit.

Members noted:

- With reference to actions relating to the College's Redundancy Policy that, while revisions to the policy had been approved by the Personnel Committee in Jan. 2016 (under authority delegated by the Corporation), a further updating revision would be required following a revision to the College's Financial Regulations approved by Corporation in Mar. 2016, with the revision to be considered at the Personnel Committee meeting on 21 June 2016;
- With reference to the recommendation relating to the College's accommodation strategy, that while the accommodation strategy statement approved by Corporation in Dec. 2015 did not include temporary accommodation procedures, it had been noted at the Committee's Mar. 2016 meeting that such procedures were included in the College's Business Continuity Plan;
- The Director of Resources had reported, with reference to planned small scale accommodation projects, that the College had a detailed plan and had received quotations for summer 2016 works required to meet curriculum demand and changes in faculty structures.

***The Committee received a progress report on actions arising from the 2015 financial statements audit.***

### **Risk management**

#### **88.6 Review of College's strategic risk register**

The Director of Finance, Anna Lamplough, reported that the College's strategic risk register had been reviewed and updated by the College's senior management team (SMT).

Members noted that:

- The College's strategic risk register included risks rated 12 or above derived from the College's operational risk registers;
- With reference to External Factors, a new risk arising from the Area Based review (ABR) process had been added and a risk relating to reduced funding had been removed from the register, as funding for 2016/17 had been confirmed;
- With reference to Financial Viability and the achievement of financial targets, the need for a 5-year forecast had been added to the Additional Controls Required column of the register;
- With reference to Infrastructure, the risk relating to business continuity planning had been removed from the strategic risk register in recognition of development work undertaken on the College's Business Continuity and Critical Response plans.

***The Committee completed its review of the College's updated strategic risk register.***

### **Internal audit**

#### **88.7 Internal audit 2015/16: progress & Block 2 reports**

Lesley Hill of the internal auditors, the East Coast Audit Consortium, presented the progress report on the 2015/16 internal audit.

(i) Block 2 reports: Lettings review

Members considered the report arising from the Lettings review undertaken as part of the 2015/16 internal audit plan, noting that:

- In 2013/14 lettings income had been £2.9k which had increased to £9.6k in 2014/15;
- Given the recent increase in lettings income, the review had sought to ensure that the College had a defined policy in place with regard to both existing and new lettings and that fees were charged and recovered on an accurate and timely basis;
- Six recommendations had arisen from the review, 3 of which had been graded as 2 (Significant) and 3 graded as 3 (Requires attention), with no recommendations graded as 1 (Fundamental);
- An overall grade of Limited Assurance had been awarded.

It was noted in response to members' questions, that:

- The overall grade was considered to be borderline for Substantial Assurance but Limited Assurance had been awarded, given the number of issues identified in the recommendations;
- It was possible that some processes identified in the recommendations would have already been addressed had the review been undertaken later in the year e.g. the development of controls within the new lettings procedures to ensure income was recovered in full on a timely basis;
- Split shifts for premises staff meant that overtime costs would normally only arise in relation to weekend lettings;
- The lettings income budget set for 2015/16, which had been included in the overall 2015/16 budget approved by Corporation, had been based on actual lettings income received in 2014/15.

Members discussed issues relating to hirers' public liability insurance, the potential for lettings to raise the College's profile in addition to being a form of income generation, and the development for 2016/17 of a comprehensive lettings policy and procedure, including discount procedure.

***The Committee noted that the Lettings review had received Limited Assurance, with the implementation of recommendations arising from the review to be monitored by the Committee through the rolling plan of audit recommendations considered at each meeting.***

(ii) Block 2 reports: Follow Ups

Members noted that:

- 16 recommendations arising from the Student Financial Support (Mar. 2015), the Catering (May 2015), and the Enrolment & Tuition Fees/Fee Remission (May 2014) reviews had been considered as part of the 2015/16 Follow ups review;
- ECAC's report had noted that 14 recommendations had been implemented in full, with 2 recommendations (arising from the Enrolment & Tuition Fees/Fee Remission review) having been implemented in part.

***The Committee noted that the 2015/16 Follow Ups review showed a satisfactory implementation rate, with 2 recommendations which had been found to be partly implemented due to be further reviewed as part of the 2016/17 Follow Ups review.***

(iii) Progress report on the 2015/16 internal audit

Lesley Hill reported that the fieldwork for the Payroll and Anti-Fraud HR reviews had been completed and a combined report produced, with management responses currently awaited. It was noted in response to members' questions that the outcome of the report was Substantial Assurance.

***The Committee noted that the combined Payroll and Anti-Fraud HR report and the Annual Internal Audit Report for 2015/16 would be presented to the Oct. 2016 meeting of the Audit Committee.***

Action: LH of ECAC/Clerk

## Financial statements audit & regularity assurance

### 88.8 RSM: regularity assurance & financial statements audit plan for y.e. 31.7.16

Ashley Hepton of RSM UK Audit LLP presented the financial statements audit/regularity assurance engagement audit plan for the year ending 31.7.16.

Members noted that:

- The purpose of the plan was to explain the scope of the audit of the financial statements and the regularity assurance engagement, RSM's approach, and the key risks on which the work would be focussed;
- The plan also formed part of Baker Tilly's ongoing communication with the College under International Standard on Auditing (UK and Ireland) 260 in respect of the financial statements audit of the College;
- RSM's primary responsibility was to form and express an opinion as to whether the College's financial statements, prepared in accordance with the *Statement of Recommended Practice: Accounting for Further and Higher Education 2015* (F&HE SORP 2015) and UK GAAP, showed a true and fair view;
- RSM was also responsible for providing a regularity assurance conclusion, addressed jointly to the College and the Education Funding Agency (EFA);
- RSM would also provide an independent reasonable assurance report in connection with the Teachers' Pensions (TPS) Contributions for the year ended 31.3.16;
- The engagement letter of 15 Nov. 2015 remained in force.

The Committee noted the timetable for the audit and that the key areas of proposed audit focus/risk included the following: the first year of adoption of the F&HE SORP 2015, income recognition, pension scheme liabilities, going concern (including review of bank covenants), management override of controls. It was noted that short-term pension scheme liabilities could be affected by the referendum on EU membership due to take place later in June 2016, dependent on outcome. The need to ensure that actuarial assumptions on the level of staff pay awards were realistic was also noted. Members considered the going concern statement with reference to the Government's Area Based Review (ABR) process, noting that while the College's financial statements for the year ending 31 July 2016 would be considered for approval by the Corporation in Dec. 2016, the outcome of the North Yorkshire and the Humber ABR was not expected to be known before spring 2017.

Members noted in discussion that the EFA did not clawback funds and that the College had over-delivered on its Skills Funding Agency (SFA) adult learners' allocation so clawback was not applicable.

Additional work for the Director of Finance and the auditors and the requirement for the Corporation to approve relevant accounting policies as a result of the implementation of the F&HE SORP 2015 and FRS 102 was noted.

Members discussed in detail audit fees for 2015 and proposed fees for 2016, noting that these were respectively £12,650 and £13,245 (exclusive of disbursements and VAT) i.e. a proposed overall increase of almost 5%. It was noted that additional one-off audit work would also be required as a result of implementation of the F&HE SORP 2015, with estimated fees of £1,000 to £2,000. RSM had also estimated fees of £750 to £1,000 to assist the College with its transition to the F&HE SORP 2015 (i.e. including preparation of updated pro forma financial but excluding the restatement of comparative information and disclosures to reflect revised financial position at 31 July 2015), which would be undertaken by members of RSM's accounting team rather than its audit team.

It was noted in response to members' questions concerning additional work to be undertaken by RSM that:

- Disclosures required as a result of the F&HE SORP 2015 required additional review by the financial statements auditors, including review at a senior level;
- Assistance with transition to the F&HE SORP 2015 required pro formas to be customised;

- Proposed fees included a review of only one draft of the financial statements, noting that more than one draft might need to be produced as a result of the transition to the F&HE SORP 2015.

The Committee considered the appendices to the plan, including confirmation of auditor independence, briefings on emerging issues (Appendix E) and financial reporting developments (Appendix F), including a briefing on the financial implications of academisation.

***The Committee completed its review of RSM UK Audit LLP's external audit plan for the financial year ending 31.7.16, agreeing to recommend it to Corporation, subject to further discussion of fees with RSM.***

**Action: Chair**

## **88.9 FRS 102 and the new F&HE SORP**

The Committee received a briefing note from the Director of Finance, Anna Lamplough, on the F&HE SORP 2015 which had been presented to the May 2016 Corporation meeting, together with reference documents on Financial Reporting Standard (FRS) 102 and the F&HE SORP (see agenda item 13).

Members noted that:

- The financial statements for the financial year ending 31 July 2016 were required to be prepared in accordance with the requirements of the FRS 102 and the F&HE SORP 2015;
- Colleges were required to restate their comparative 2015 figures in their financial statements, covering both the income and expenditure account for the year ended 31 July 2015 and the balance sheet as at 31 July 2015, which meant the opening position for the comparatives as at 1 Aug. 2014 also had to be restated;
- The one-off transition adjustments would impact on reported reserves as at 1 Aug. 2014;
- On first time adoption, the College would need to disclose an explicit and unreserved statement of compliance with the SORP 2015, how the transition from SORP 2007 affected the reported financial position, performance and cash flows from that previously presented, the nature of all accounting policy changes, a clear reconciliation of reserves, and a detailed reconciliation of the 2014/15 surplus /deficit under SORP 2007 to the restated position under the SORP 2015.

The Committee noted in discussion that the following 3 key areas to be considered by the Corporation when making decisions on applicable accounting policies.

### (i) Valuation of Fixed Assets

Members noted that:

- Certain one-off options were available on transition to the SORP 2015 e.g. the adoption of a "fair value as the deemed cost" on transition to FRS 102 without the need to adopt an on-going policy of revaluation of fixed assets;
- The June 2016 F&GP Committee had noted that the College had obtained a valuation report from DVS (public sector property specialists) which would result in an increase in the revaluation reserve (and corresponding increase in the value of land) on the Balance Sheet at 1 Aug. 2014 from £961k to £1.425m i.e. it would strengthen the Balance Sheet.

### (ii) Employee Benefits

Members noted that:

- Staff holiday pay accrual had been calculated as £350k, which would adversely impact upon Income and Expenditure Account reserves as at 1 Aug. 2014.

### (iii) Government Grants

Members noted that:

- The most significant change related to the treatment of deferred capital grants, with the SORP 2015 including two options for government grants i.e. the accruals model or the performance model;
- Under the former, revenue income would continue to be recognised as the costs were

incurred and capital grant income deferred over the useful life of the related assets, with the release of the deferred capital grant continuing to match against the depreciation of the related asset i.e. it would have no net impact on the reported result;

- Under the latter, income would be recognised when performance related conditions were met and, as the performance criteria for capital grants would normally be related to the construction phase, all the related grant income would usually be recognised as income by the time the asset was brought into use i.e. there would mean a large one-off income at that time but in subsequent years the depreciation charge would not be matched by a release of deferred capital grant.

The Committee noted in discussion that:

- Adoption of the performance model by the College would result in a year-on-year deficit position;
- If the accruals model continued to be adopted by the College, the deferred capital grant would, however, be treated as a creditor split between those due within one year and those due after more than one year, which would have an adverse impact on reported net current assets and net assets;
- With reference to any impact on bank covenants applicable to the College, the banks had indicated verbally that the College should not be disadvantaged by the implementation of FRS102, as changes were mainly presentational.

***The Committee considered a report on the implementation of the SORP 2015 and FRS 102, noting that once the Financial Planning model for 2016-18 had been populated by the Director of Finance, a recommendation would be made to the July 2016 Corporation meeting on accounting policies to be adopted.***

**Action: Director of Finance**

## **BCP & CRP**

### **88.10 Business Continuity Plan and Critical Response Plan report**

Members noted that the Corporation had approved the College's Business Continuity Plan and Critical Response Plan at its July 2015 meeting, with approval of subsequent amendments delegated to the College's senior management team (SMT) and annual review of the Plans by the Audit Committee.

Members noted the briefing included with papers for the meeting and received, for information, the latest versions of the College's Business Continuity Plan and Critical Response Plan, with updating changes, including the section on the College's security alarm system at Appendix C of the former, highlighted for ease of reference. It was noted in discussion that:

- Updating changes included references to the College's current insurers, ICT backup arrangements, and changes to the College's senior management team (SMT);
- The Plans had also been re-visited following a security hoax and a gas and water outage during the current academic year, which had provided opportunities for live tests of the Plans;
- *[Confidential minute].*

***The Committee received the College's updated Business Continuity Plan and Critical Response Plan, noting that references to the Assistant Principals on page 26 of the former would be updated and the final versions of the Plans would be placed on the Corporation section of Moodle.***

**Action: AL/Clerk**

## **Committee matters**

### **88.11 Review standing agenda items and terms of reference**

***The Committee completed its annual review of the Committee's standing agenda item list and terms of reference, agreeing to recommend to Corporation a minor updating change to the former.***

**Action: Clerk**

## 88.12 Audit Committee members' length of office and skills

Members noted that:

- The Chair of the Audit Committee, Philip Wright, had been a member of the Committee for just over 12 years;
- The Vice-Chair, Martin Longbottom, had been a member of the Committee for just under 5 years;
- John Shipley had been a member of the Committee for just under 4 years;
- John Gilleard had been a member of the Committee for just under 2 years;
- There was currently a vacancy for a fifth Committee member and a further vacancy would arise from 29 Sept. 2016, as Martin Longbottom was not seeking re-appointment as a Corporation member;
- The Search & Nominations Committee would make recommendations on vacancies at the Corporation's July 2016 meeting;
- Audit Committee members collectively had experience in risk management, finance, audit and assurance.

***The Committee received the Clerk's report on Audit Committee members' length of office and skills.***

## Appendix A: funding body circulars & new regulations &/or documents from other external bodies

### 88.13 Documents from external bodies

***The Committee received the following documents, for information and reference:***

- RSM: new F&HE SORP (Sept. 2015);
- RSM: Key deliverables in respect of F&HE SORP changes (year ending 31.7.16);
- RSM: FE Issues 2016;
- Extract from the EFA/SFA Financial Planning Handbook 2016-18 (Apr. 2016): Checklist for completion by the Corporation in July 2016.

## Appendix B

### 88.14 Draft appendix to the Fraud & Bribery Policy

***As noted at minutes 88.4 above, the draft appendix to the College's Fraud & Bribery Policy would be presented to the Committee's Oct. 2016 meeting.***

### 88.15 Self-assessment of compliance with regularity & propriety requirements

Members noted that, as part of the annual regularity assurance review, RSM reviewed the College's completed self-assessment questionnaire concerning **compliance with regularity & propriety requirements**.

***The Committee noted that, as in 2015/16, the College's completed regularity self-assessment questionnaire (SAQ) would be e-mailed to members during summer 2016, for information, with the signed questionnaire presented as an agenda item at the Committee's Oct. 2016 meeting.***

**Action: Clerk**

## Final matters

### 88.16 Any other business

***There was no other business.***

### 88.17 Risk management – items identified at the meeting

Members considered risk register formats, noting in discussion that colleges would normally have both strategic and operational risk registers (e.g. operational risks arising from the introduction of FRS 102 were included in the College's operational financial risk register but were not included in its strategic risk register), including key risks for which there no or few mitigating controls (e.g. changes in government policy).

*The Committee noted that no new items of risk had been identified at the meeting.*

**88.18 Date of next year's meetings**

*It was noted that the Clerk would consult with members on dates for Audit Committee meetings in 2016/17.*

**Action: Clerk**

**88.19 Meeting of Committee with auditors without the presence of senior management**

*The Committee agreed that no meeting was required under this item.*

Fiona Bagchi  
Clerk to the Corporation