### MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON 5 DECEMBER 2016

#### Present

Ian Falconer  
Governor  
Mathew Lynds  
Governor  
John Toon  
Governor

The quorum for the meeting was three Members.

#### In attendance

Rachel Davies  
Interim Principal and Chief Executive  
Tony Lawlor  
Interim Director of Finance  
Trisha Birch  
Interim Finance Manager  
Dan Amin  
Governor  
Paul Pascoe  
Governor  
Meryl White  
Governor  
Mark Stephenson  
Clerk to the Corporation  
Richard Lewis  
RSM UK  
David Fletcher  
BDO

The meeting was held in Boardroom, Hub and commenced at 3.30 pm.

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<th>Item</th>
<th>Minute</th>
<th>Action</th>
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<td>1. Apologies</td>
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<td>2. Declarations of Interest</td>
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<td>3. Minutes of a meeting of the Audit Committee held on 21 September 2016 and any matters arising</td>
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Members of the Audit Committee determined to meet with the auditors in camera prior to the meeting; recognised as best practice to undertake such an activity at least once per year. There were no matters arising that are not covered in agenda items / discussions.

1. **Apologies**

   Apologies for absence had been received from Debbie Hilditch.

2. **Declarations of Interest**

   Members were reminded of the need to declare interests as and when they arise within the agenda and recognised that there is a register of standing declarations of interest held by the Clerk.

   Additionally, it was noted that, as the internal auditors’ review of governance in the ABR process relates to College governance arrangements / decision making, all Governors have an interest in the contents of the report. However, the review was requested by the Audit Committee as part of its remit to commission, receive, and report on assurance.

3. **Minutes of a meeting of the Audit Committee held on 21 September 2016 and any matters arising**
The minutes were agreed as a true and correct record and signed by the Chair.

**Matters Arising**
With reference to a tabled composite listing of actions, Members received a verbal update on matters arising from previous meetings. It was noted that the majority of actions have been completed.

It was noted that much work has been done on the College’s risk management arrangements as reported below. A draft risk appetite statement has been prepared and will be shared with Committee Members for comment. Whilst it became necessary to postpone the recently scheduled meeting of the Assurance Management Group, further meetings are planned (Committee Members are to be invited to attend).

With regard to the Internal Audit Plan, it was confirmed that the document has been updated to reflect changes requested at the last meeting; notwithstanding this, the Plan is subject to annual review.

It was agreed that completed actions are removed from the composite listing.

4  **Determination of ‘Any Other Business’**

None. It was noted that a review of the External Auditors performance will be on the agenda of the next meeting.

5  **Regularity Audit – Self-Assessment Questionnaire**

A paper that included a copy of the College’s completed Regularity Audit / Self-Assessment (October 2016) was introduced; it was noted that completion of the document is a requirement of the Joint Audit Code of Practice (JACOP). The external auditors commented on the full response to questions.

A query was raised in relation to safeguarding of assets – specifically a reported theft that took place at High Melton in August 2016. It was confirmed that this will be a consideration for the 2016/17 financial year.

**RESOLUTION (AC 24/16):**
Members welcomed the assurance provided by the College’s responses to the Regularity Audit Self-Assessment Questionnaire.

6  **Financial Statements for Year Ended 31 July 2016 (including Final Audit Findings Report and draft Letters of Representation)**

The Chair reminded Members / attendees of the respective roles of the Finance and Resources Committee and the Audit Committee in relation to the Financial Statements. The figures are for the Finance and Resources Committee’s consideration. The Audit Committee ensures a proper audit (by appointing the auditors), considers any control issues arising from the auditor’s draft report,
confirms the Report of the Governing Body (consistent with the Committee’s knowledge) and agrees the Statement of Corporate Governance and Internal Control.

It was noted that much has been done over the last few months not least to incorporate the requirements of the new HE / FE SORP.

The external auditors introduced the two reports (Financial Statements for the year ended 31 July 2016 and the Final Audit Findings Report for the year ended 31 July 2016) and highlighted a number of key sections to demonstrate the effectiveness of the assurance framework.

**Financial Statements**

In the auditor’s opinion, the ‘Financial Statements give a true and fair view of the state of the Group’s and the College’s affairs as at 31 July 2016 and of the Group’s deficit of income over expenditure for the year’. The opinion is unqualified; but includes an ‘emphasis of matter’ (defined as a highlight to the reader) in relation to the College’s plans for a proposed merger and resultant changes to constitution. For this reason, the Financial Statements have been drawn up on a basis other than that of going concern. Through Members’ queries, it was confirmed that the inclusion of an emphasis of matter in financial statements is a feature of many audit opinions for other colleges and multi-academy trusts in strategic positions similar to that of the College. Additionally, it was reported that the external auditors have been in discussions with funders and bankers in this respect. It was suggested that, when publishing the Financial Statements, a covering letter, which puts some context to the Report, accompanies the document.

It was reported that, subject to the outcomes of imminent meetings, there may be a need to add a second emphasis of matter regarding the College’s cash balances going forward into 2016/17.

With regard to the ABR section on pages 12 and 13 of the Financial Statements, it was suggested that wording consistent with the Board’s decisions should be employed i.e. terminate merger discussions rather than reject the recommendation; a decision as to whether to remove or adjust paragraph 7 (starting ‘the College has recently’) is to be made; also, under the Future Prospects paragraph, the word ‘seeking’ should be replaced with ‘awaiting’.

Overall, Members agreed;

- the principle risks set out on pages 15 and 16;
- the disclosure of information to auditors for signing by the Chair of the Corporation i.e the letters of representation - page 18;
- the Statement of Corporate Governance and Internal Control on pages 19 to 24, confirming that in the Committee’s opinion the College has an adequate and effective framework for governance, risk management and control, and has 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 - pages 24 and 25 (in the context of the Regularity Audit – considered at item 5 above) for signing by the Chair of
the Corporation and the Accounting Officer. This is also considered under item 10 below - the Audit Committee Annual Report.

Final Audit Findings Report
Through Members’ questions and discussion, a number of key points were made:
- recognition of the significant amount of work completed by the finance team and auditors;
- welcome the lack of significant control issues; no impropriety issues;
- recognition that additional work has been undertaken by the external auditors; related fees to be agreed with the Interim Director of Finance;
- draft letters of representation – Arthur Street missing from Report (Waterdale duplicated);
- satisfaction in the auditors’ independence and their ability to give an opinion;
- confirmation that all events occurring subsequent to the date of the financial statements have been disclosed;
- a signed letter of engagement had been issued in November 2016; a copy will be available in readiness for the Board meeting on 14 December 2016.

Committee Members conveyed their thanks to the finance team and the external auditors.

RESOLUTION (AC 25/16):
Members recommended for Board approval the College’s Financial Statements for the year ended 31 July 2016 and the external auditors’ Final Audit Findings Report for the year ended 31 July 2016, specifically that:
- the College is going concern (subject to the views of the Finance and Resources Committee);
- Financial Statements are agreed subject to a resolution of the identified wording issues on pages 12/13;
- The Chair of the Corporation and the Accounting Officer are recommended to sign the letters of representation;
- The agreement of additional audit fees is delegated to the Interim Director of Finance.

Risk / Assurance Management - Risk Register November 2016

Members received a report that provided an update on the College’s risk profile and included a copy of the latest version of the Risk Register; this was supported by a tabled paper – a heat map of the risks before mitigation at 13 September and 5 December 2016. It was noted that two further risks are to be added to the Register, relating to strategic options / merger and pensions.

Through Members’ questions and discussion, a number of key points were made:
- Assurance that the risks are owned by the Executive; considered at Executive meetings;
- The Corporation’s committees also monitor the risks that fall within their respective remits through standing agenda items;
- The scoring process, which is a largely subjective assessment, was
summarised; the means / practicalities / viability of gathering external evidence to support or contradict the subjective assessment was considered;

- Recognition that the new risk management process continues to develop, and the documentation will be considered at the next Assurance Management Group meeting in the new year;
- General agreement that the heat map is particularly helpful for Members’ monitoring of the risks.

Additionally, it was noted that the internal auditors will be in a position to provide the Committee with assurance on the College’s approach to risk at the end of the year.

It was also noted that, following the recent sad news of a student’s death, College investigations are under way.

**RESOLUTION (AC 26/16):**

Members noted the contents of the Report and welcomed the assurance provided in relation to the College’s approach to risk management, which is working and continues to be developed. Additionally, Members agreed the addition of two further risks to the Risk Register.

8 **Internal Audit Reports**

Members received two reports for consideration, following recent reviews undertaken by the Internal Auditors (in accordance with the agreed plan). The risks, main findings, and the assurance provided by each report were highlighted, followed by a summary of the management responses to the findings / recommendations.

Through Members’ questions and discussion, a number of key points were made in relation to each report:

**a) Commercial Review – Waterdale training Ltd**

- Reference was made to the Waterdale Board meeting that took place last month; the internal auditors have viewed a paper that sets out the advantages / disadvantages of maintaining the company or dissolving it / bringing its activities into the College;
- Noted that the report provides limited assurance and that the proposed dissolution addresses most of the associated, unmitigated risks;
- Important to retain the advice relating to strategy, budgets, service level agreements, and memorandum of understanding for any future projects.

**b) Governance – ABR Decision Making Process**

- The process for production of the final report (including the internal auditor’s national lead for education) was summarised;
- Strong recognition of the unique position / context of the College during the ABR (Area Based Review) process;
Members conveyed their thanks to the internal auditors and staff involved in the production of the Report.

**RESOLUTION (AC 27/16):**
Members received and noted assurance from the two internal audit reports relating to Waterdale Training Ltd and Governance – ABR Decision Making Process.

Additionally, the internal auditors confirmed that delivery of the internal audit plan for 2016/17 is on track, with the Human Resources and Sub-contracting reviews scheduled for this week (reporting in March 2017) and Follow-up, Higher Education, and Initial Diagnostic Assessment for next term.

Members were satisfied that there is no need for any additional assurance commissioning at this time.

**9 Audit Recommendations and Actions (Composite report)**

Members received and noted a report that includes details of the outstanding audit recommendations and an update on the related actions; Members welcomed and gained assurance from the large amount of work that continues to be done.

In discussions about the report, a number of actions were agreed:
• Removal of completed recommendations / actions;
• Waterdale report – whilst the recommended actions have been entered as one recommendation, it was agreed to retain a record of the lessons learned / best practice.

RESOLUTION (AC 28/16):
Members noted the progress made against the Audit recommendations and were reassured that the tracker provides a complete and accurate summary of progress.

10 Audit Committee Annual Report

Members received and noted a draft copy of the Audit Committee Annual report for 2015/16; it was thought the format of the report covers the requirements set out in the latest version of Joint Area Code of Practice (June 2016). Paragraph 3.5 is to be updated to reflect the assurances received from the external auditors and to include reference to the emphasis of matter considered at item 6 above. Additionally, it was suggested and agreed that the appendix is updated to reflect the value for money assurances gained through the work of the Finance and Resources Committee (detailed at paragraph 4.15).

RESOLUTION (AC29/16)
Members agreed the Audit Committee Annual Report 2015/16 for submission to the Board, subject to the identified adjustments.

11 National Policy Update/ Feedback from Event

Following a number of Governors’ attendance at the recent AoC Conference, Members received a summary of the key themes / workshops that relate to the Committee’s remit:
• Implications of the insolvency legislation / relationships with banks;
• Pensions arrangements; and
• A briefing / webinar highlighting the implications of the Chancellor of the Exchequer’s Autumn Statement on FE.

12 Key Items for Feedback to the Board

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<th>Item</th>
<th>Detail</th>
<th>Assurance</th>
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<tr>
<td>Regularity Audit – Self-Assessment Questionnaire</td>
<td>Questionnaire completed and signed by Chair of Corporation and Accounting Officer</td>
<td>Financial, non-financial, and regularity risks are being effectively managed</td>
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<tr>
<td>Financial Statements for Year Ended 31 July 2016 (including Final Audit Findings Report and draft Letters of Representation)</td>
<td>New format of Report that takes account of the SORP; external audit report summarising the key findings.</td>
<td>Much work done by DoF and external auditors to align accounts to new SORP; no impropriety issues; no significant deficiencies in internal control. Confirmation that</td>
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<td>Risk / Assurance Management</td>
<td>Further updates to risk register, including new risks (strategic options / merger and pensions)</td>
<td>Risk management / assurance continue to work; consideration / ownership by the Executive and respective Committees</td>
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<td>Internal Audit Reports</td>
<td>Waterdale training Ltd</td>
<td>Limited assurance; proposal to dissolve company and transfer activity to College.</td>
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<td>Governance - ABR</td>
<td>Welcome and accept the recommendations, highlighting the 6 key independent assessments on pages 12 and 13 of the Report and paragraph 4.9 of the Audit Committee Annual Report and the lessons learned.</td>
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<td>Audit recommendations - monitoring</td>
<td>Composite report of internal / external audit recommendations</td>
<td>Committee satisfied that much progress continues to be made.</td>
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<td>Audit Committee Annual Report</td>
<td>As required by the Joint Audit Code of Practice, designed to assist the Chief Executive and the Board with their responsibilities for College systems, controls, and risk management</td>
<td>Overall, the Committee is assured that the Committee’s audit arrangements, framework of governance, risk management and control and processes for securing economy, efficiency and effectiveness are adequate and effective.</td>
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13 Any Other Business

Committee Members wished David Fletcher, who is leaving BDO, well in his new role.

14 Date and Time of Next Meeting

Wednesday 15 March 2017, 4.00 pm in the Boardroom.
The meeting closed at 5.33pm

Mark Stephenson
Clerk to the Corporation

Signed: ................................................ (Chair)   Date: ............................