



**Minutes of a Meeting of the Audit Committee of the  
Board of the Corporation**

**held at the College on Monday 11th November 2013 at 5.30 p.m.**

***Present:***

Mr G Marshall (Chair), Mr J Davies, Mr D Temperley, Mrs G Granath.

***Apologies:*** Mr G Gibson.

***In attendance:***

Mr A Croney (Principal), Mr P Polowyj (Interim Director of Finance and Resources), Mr M Sowerby (Clerk to the Corporation), Mr P Church (Internal Audit, Baker Tilly), Mr P Green (Head of Internal Audit, Baker Tilly), Ms C Leece (External Audit, Baker Tilly)

The Chair introduced and welcomed Mr P Polowyj, Interim Director of Finance and Resources and Mr P Green, Head of Internal Audit at Baker Tilly, who were attending the meeting for the first time.

**1. Declarations of Interest.**

1.1 There were no declarations of interest

**2. Appointment of Chair.**

2.1 The Clerk informed Members that the two year term of office of the Chair expired this month and it was necessary to appoint someone to the position at this meeting. The Clerk had been previously advised by Mr Marshall that he would be prepared to stand again. No further nominations were made and the Members present approved the reappointment of Mr Marshall for a further term of two years.

**3. Minutes of a Meeting of the Audit Committee held on 1<sup>st</sup> July 2013**

**Matters Arising.**

3.1 In relation to Item 2.1 Langley Park. The Interim Director of Finance and Resources informed Members that the purchaser had now appointed a solicitor and the two remaining issues should soon be resolved.

3.2 In relation to item 5.3 Regularity Audit Self- Assessment. The Principal confirmed that he had signed the self-assessment.

3.3 In relation to item 7.5 Special meeting of the Audit Committee. The Clerk informed Members that the meeting had taken place on the 8<sup>th</sup> October and the outcome of the meeting was confirmed. The Committee had agreed that they should retain the current internal audit service for 2013/14 and the Director of Finance and Resources should commence the preparation of tender documents for both internal and external audit services for 2014/15 onward.

3.4 In relation to Item 8.3 Financial Statement Auditors Strategy. Ms Leece advised Members a paragraph explaining the Internal Audit process had been included in the Strategy.

***Agreed:-***

**3.5 THAT the Committee accept the minutes as a true record.**

**4. Report on outstanding audit recommendations.**

4.1 The Interim Director of Finance and Resources informed Members that work on the remaining outstanding recommendations was going well and two of the recommendations, Risk assurance and Partnerships, were included on this evenings agenda.

***Agreed:-***

**4.2 THAT the Committee note the current position.**

**5. Risk Register Update.**

5.1 The Interim Director of Finance and Resources explained the report and the progress that had been made since the last meeting of the Committee in July. Members were informed that the Risk Register still needed some further work but the Senior Management Team (SMT) should have the register finalised in time to present it to the Board at the December meeting.

5.2 The Interim Director of Finance and Resources advised Members that the register will be refreshed and presented to each future meeting of the Audit Committee. Members were asked if they had any further comments to make about the register. No comments were made.

***Agreed:-***

**5.3 THAT the Committee approve the Risk Register and recommend the approval of the Register by the Board of the Corporation.**

**6. Internal Audit Reports.**

6.1 Mr Church (Internal Audit, Baker Tilly) presented the following reports:

- Learner Number Systems – Learner Responsive:

- Partnerships:
- Follow up report.

## **6.2 Learner Number Systems – Learner Responsive.**

6.2.1 Mr Church informed Members that the review of the systems in place provided substantial (Green) assurance that the controls upon which the College relies to manage this area are suitably designed, consistently applied and effective.

6.2.2 Mr Church outlined the key points of the report and Members were informed that the two, Medium, recommendations had been agreed and implemented. Following a question Mr Church confirmed that the logs, which had not been available, did exist and they have since been updated.

### ***Agreed:-***

**6.2.3 THAT the Committee receive the report.**

## **6.3 Partnerships.**

6.3.1 Mr Church informed Members that the review of the systems in place provided substantial (Green) assurance that the controls upon which the College relies to manage this area are suitably designed, consistently applied and effective.

6.3.2 Mr Church outlined the key points of the report and Members were informed that the one, Medium, recommendation, update the Financial Regulations, had been agreed and is to be reported later in the meeting.

6.3.3 Following a question the Principal informed Members that the College had worked with some of the partners for years and although competitive tendering is not normally done in these situations, due diligence is always carried out and the Board is always made aware. Mr Church commented that since Partnerships are such a large part of the College business, procedures cannot be allowed to interfere with this. As long as the control environment in place is fit for purpose, then it is fine.

6.3.4 The Interim Director of Finance and Resources informed Members that a Skills Funding Agency (SFA) Review of Employer Responsive had just been received. The Review confirms that the College is doing everything correctly. The Review will be reported to the next meeting of the Audit Committee.

### ***Agreed:-***

**6.3.5 THAT the Committee receive the report.**

## **6.4 Follow up report.**

6.4.1 Mr Church informed Members that the College had made good progress in implementing actions agreed to address internal audit recommendations.

6.4.2 Members were informed that of the 12 recommendations agreed, 9 had been implemented, 1 is on-going and 2 are to be carried over to the next review. Members commented that as there had been problems with progress last year it was good to see things had been turned around.

***Agreed:-***

**6.4.3 THAT the Committee receive the report.**

**7. Annual Internal Audit Report.**

7.1 Before presenting the Annual Internal Audit Report Mr Green (Head of Internal Audit, Baker Tilly) confirmed the situation regarding the Internal Audit service following the Baker Tilly takeover of RSM Tenon. Members were advised that the service will change slightly and the format will be different. The Chair confirmed that the Audit Committee were fully aware of the situation.

7.2 Following a question regarding the reported increase in the cost of the Internal Audit service, Mr Green informed Members that this matter had been discussed and resolved with the former Director of Finance and Resources before she left.

7.3 Mr Green then presented the report. Members were informed that for the twelve months ending on 31 July 2013, the College had been awarded a positive opinion (Green award) for Governance, Risk Management and Control. Mr Green then highlighted several aspects of the report. Members were advised that the College management had demonstrated a willingness to implement all recommendations and overall the report was a very good outcome for the College. The Chair thanked the College Senior Management Team (SMT) for their work in achieving such a good report.

7.4 Following a question regarding how we measured up to other Colleges, Mr Church advised Members that Derwentside College measured up very well. Mr Green informed Members that they would carry out a benchmarking exercise with some of their other clients and bring a report to the next meeting of the Committee.

***Agreed:-***

**7.5 THAT the Committee accept the report and recommend the approval of the report by the Board of the Corporation.**

**8. Annual Report and Financial Statements.**

8.1 The Interim Director of Finance and Resources presented the report and informed Members that there had been a good financial outcome for the year. Members were given details of the Cash balances, exceptional items and the underlying surplus. The Interim Director of Finance and Resources informed Members that the College is clearly “bucking the trend” within the Further Education sector. The Chair stated that he was very pleased with the report.

8.2 Following a question regarding the constantly changing FE environment and whether restructuring costs should no longer be referred to as a one- off cost, Ms Leece (Baker Tilly) confirmed that restructuring costs are becoming the norm and if the pace of change continues it may be necessary to report these costs differently in future reports.

8.3 The Principal informed Members that as we have engaged new business, over the last three years, the number of lecturing staff has reduced by 30 and the number of assessors has been increased considerably. Further slight restructuring will take place this year as some lecturers complete their contracts.

***Agreed:-***

**8.4 THAT the Committee accept the report and recommend the approval of the report by the Board of the Corporation.**

**9. Final Audit Findings Report.**

9.1 Ms Leece (Baker Tilly) presented the report and provided comment in each of the following key areas:

- Financial Health and Going Concern
- Income recognition
- FRS17 – Retirement Benefits
- Regularity Review
- Dormant subsidiaries
- Enhanced Pension Provision
- Future Strategies
- Partnership provision

9.2 Members were informed that although two matters still needed to be finalised no significant concerns had been identified and the auditors were satisfied with their findings.

9.3 Ms Leece then outlined the Adjustments, Deficiencies in Internal Control, Qualitative aspects of Accounting Practices, Fees, Independence and Letters of Representation. Ms Leece finally advised Members of possible changes to Financial Reporting Standards.

9.4 The Chair congratulated the SMT for another good report.

***Agreed:-***

**9.5 THAT the Committee accept the report and recommend the approval of the report by the Board of the Corporation.**

**10. Letter of Engagement.**

10.1 Ms Leece informed Members that due to a change in the rules relating to the requirement for the audit of Financial Statements, a supplemental letter of engagement needed to be recommended to the Board for approval. Following a

question from the Chair, Ms Leece confirmed that there should be no impact on the College.

***Agreed:-***

**10.2 THAT the Committee accept the Letter of Engagement and recommend its approval by the Board of the Corporation.**

**11. Review of Financial Regulations.**

11.1 The Interim Director of Finance and Resources informed Members that following the internal audit of Partnerships, amendments to the Financial Regulations have become necessary. Members were then advised of the proposed amendments.

***Agreed:-***

**11.2 THAT the Committee accept the report and recommend the approval of the amendments to the Financial Regulations by the Board.**

**12. Audit Committee Terms of Reference.**

12.1 The Clerk informed Members that at the meeting of the Board in October amendments to the Audit Committee Terms of Reference had been proposed. The Board had agreed to adopt the revised Terms of Reference subject to consideration and approval by the Audit Committee.

12.2 The Clerk reminded Members that the amendments were necessary to bring the existing Terms of Reference in line with the Audit and Accountability Annex of the Foundation Code of Governance. The Clerk then highlighted the areas where changes were necessary.

***Agreed:-***

**12.3 THAT the Committee approve the Terms of Reference.**

**13. Draft Annual Audit Letter to the Board and Principal.**

13.1 The Clerk informed Members that the purpose of the Annual Audit Letter is to provide assurance to the Board and the Principal that the Committee has fulfilled its responsibilities as set out in the Terms of Reference. The Clerk then briefly summarised the content of the draft letter.

13.2 Members were asked if they wanted any amendments making to the letter. Ms Leece requested that the wording at the bottom of page two be changed to read "Potential exposure to Future Strategies is in the process of being managed by trying to reach an agreed set off etc."

13.3 The Chair stated that in his opinion it was a good report and it identified all the work the Audit Committee had been involved with over the year.

**Agreed:-**

**13.3 THAT the Committee, subject to the above amendment, approve the content of the letter.**

**14. Next Meeting Agenda.**

14.1 Items include:-

- Minutes / Matters arising
- Report on outstanding audit recommendations
- Risk Register update
- Internal Audit reports
- Appointment of Internal Auditors
- Appointment of External Auditors
- Internal Audit Progress Report
- Risk Management Report

**15. Any Other Business.**

15.1 There were no items of other business.

The meeting closed at 6.35pm.

**Date of Next Meeting.**

The next meeting of the Audit Committee is 10<sup>th</sup> March 2014 at 5.30pm.