

**AUDIT COMMITTEE**

MEETING HELD ON THURSDAY 4 DECEMBER 2014

Meeting commenced: 18.00

Meeting ended: 20.50

**PRESENT**

Mr Michael Axelrod	Independent Member	
Dr Andrew Gilchrist	Independent Member	Chair
Mr Brian Smith	Independent Member	
Mrs Isobel Wallace	External Co-opted Member	

**IN ATTENDANCE**

Mrs Jayne Dickinson	Principal and Chief Executive
Mrs Ann-Christine Harland	Vice Principal: Finance and Resources
Dr Barbara Spittle	Chair of the Corporation
Mr Mike Cheetham	Baker Tilly: Internal Audit Service
Mr Mark Crowter	Baker Tilly: External Audit Service

**APOLOGIES FOR ABSENCE**

Ms Rosemary French	Independent Member
Mr Kevin Standish	Deputy Principal: Curriculum and Standards

**CLERK**

Mrs Sue Glover	Clerk to the Corporation
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**AC.35.14 DECLARATION OF INTERESTS**

Members and officers were reminded of the need to declare any personal or financial interest in any item to be considered during the meeting.

**AC.36.14 APOLOGIES FOR ABSENCE**

One member of the Committee submitted her apology for absence from the meeting

Mrs Rosemary French - personal commitments

**AGREED**

The Audit Committee accepts the apology for absence.

**AC.37.14 NOTIFICATION OF ANY OTHER BUSINESS**

Members agreed that there was no other business to be considered.

**AC.38.14 UNCONFIRMED MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 12 JUNE 2014**

The minutes of the meeting were approved and signed as a correct record.

**AC.39.14 MATTERS ARISING AND ACTION POINTS FROM THE MINUTES OF THE PREVIOUS MEETING**

Members agreed that there were no matters arising from the minutes of the previous meeting.

Members noted that all Action Points had been satisfactorily completed.

**AC.40.14 INTERNAL AUDIT: REVIEW OF OUTSTANDING AUDIT ITEMS**

The Vice Principal: Finance and Resources, presented for information and consideration, a report on outstanding audit items.

Members were advised that following the internal audit reviews undertaken by the Internal Auditor in 2013/2014, the College received 16 internal audit points, a reduction from the 24 noted the previous year. Of these, 1 was noted as High (on the new HR/Payroll system), 5 medium points and 10 low risk points. It was noted that as at 1 December 2014, 6 had been completed, 6 were in progress and 4 remained to be progressed.

However, the above total does not include the DSAT review for 2012/13, although these issues were addressed in the Autumn Term 2013 this was before the ILR was submitted in November and, therefore, were not included in the Tracker.

The internal audit service will be reviewing the progress against the Tracker during their next visit in April 2015.

Members noted the key impact measures arising from this report.

**AGREED**

The Audit Committee notes the report.

**AC.41.14 INTERNAL AUDIT END OF YEAR SUMMARY REPORT 2013/2014**

The Internal Auditor presented, for consideration, an Internal Audit End of Year Summary Report for 2013/2014.

Members noted that the internal auditors identified 22 points in 2013/2014, which included the DSAT review for 2012/13 as detailed above, an increase on the 12 noted in the previous year as detailed in the report. The College management had accepted the recommendations.

The Committee was advised that 2013/2014 was the year in which two new systems, Finance and HR and Payroll, were fully implemented with shared SSSC software and so were the subject of key control audit work in year. Members were advised that the project team subsequently implemented some of the recommendations. 1 High, 6 medium and 15 low risk items were noted and many of the actions have already been implemented.

Members raised the question with the Internal Auditor as to why they were unable to give a formal opinion for 2013/2014. The Internal Auditor advised members that as Baker Tilly provide both internal and external audit services, they are unable to give a formal opinion as this could give rise to a conflict of interest between the two entities, Baker Tilly UK Audit LLP and Baker Tilly Advisory Services LLP.

Members noted the key impact measures arising from the report.

**RESOLVED**

The Audit Committee receives and approves the Internal Audit End of Year Summary Report for 2013/2014 and commends the Report to the Corporation Board for endorsement and approval.

**AC.42.14 INTERNAL AUDIT DRAFT REPORTS**

The Internal Auditor presented, for consideration and approval, the draft Internal Audit Assignment Report undertaken in October 2014 on the Data Self-Assessment Toolkit (DSAT) reports.

Members were advised that the report of the audit review of long term strategic planning, internal financial controls and learner numbers, which was scheduled to take place in November 2014, has been delayed, as the learner numbers work on WBL provision has been deferred until week commencing 8<sup>th</sup> December 2014 and therefore will be presented at the next meeting of the Audit Committee.

It was noted there were 5 recommendations, 3 medium and 2 low risk.

### **RESOLVED**

The Audit Committee approves Internal Audit Assignment Report – October 2014 (1.14/15)

#### **AC.43.14 ANNUAL REPORT AND FINANCIAL STATEMENTS: 2013/2014**

The Vice Principal: Finance and Resources presented the draft Annual Report and Financial Statements for the Year Ended 31 July 2014.

The attention of members was drawn to

- Operating and Financial Review
  - Financial results
  - Payment performance
  - Fundamental risks
- Professional Advisers
- Statement of Corporate Governance and Internal Control
  - Internal Control – review of effectiveness
- Statement of the Responsibilities of the Members of the Corporation
- Independent Auditor's Report to the Corporation of East Surrey College

Members reviewed each section and suggested some minor wording changes to be made.

Members noted that the Finance and Resources Committee had given initial consideration to:

- Income and Expenditure Account
- Statement of Historical Cost Surpluses and Deficits
- Statement of the Total Recognised Gains and Losses
- Balance Sheet
- Cash Flow Statement
- Notes to the Financial Statements

Members were advised that

- The accounting policies have been amended to include increases in the range of lives allocated to the IT equipment to take into account new Thin Clients
- The draft 2013/2014 year end financial statements have been updated for the disclosure requirements as issued by the SFA Accounts Direction handbook 2013/2014 and audit has been undertaken by Baker Tilly

Members noted the key points

- The changes to the Statement of Corporate Governance and Internal Control, which has been substantially redrafted in accordance with the requirements of the Financial Memorandum and references to the Foundation Code and Public Value Statement. It was noted that Governor attendance is now included by individual
- The wording has been amended to reflect the new scope of the internal audit service which is to report to the Corporation on internal controls, rather than to provide an annual opinion on internal controls, risk management and governance processes

Members discussed issues arising from the Report, including

- The College has completed the annual Finance Record for the SFA which produces a financial health grading and the current rating of Good is considered acceptable
- The College LGPS liability as at 31 July 2014 increased from £3.998m to £5.558m, due to actuarial loss of £1.5m on both the scheme assets and liabilities
- No disclosure for SISSC

Members noted that it was the opinion of the Financial Statements Auditor that

‘.....the financial statements

- Give a true and fair view of the state of the College’s affairs as at 31 July 2014 and of the College’s surplus of income over expenditure for the year then ended; and
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.’

#### **RESOLVED**

The Audit Committee endorses and commends to the Corporation Board

- The Statement of Accounting Policies for acceptance and approval
- The Report and Financial Statements for the year ended 31 July 2014 for acceptance and approval

#### **AC.44.14 REGULARITY AUDIT SELF ASSESSMENT QUESTIONNAIRE**

The Vice Principal: Finance and Resources presented, for consideration and approval, the College’s Regularity Audit Self Assessment.

The Committee was advised that Self Assessment formed the basis of the separate external audit and regularity audit opinion.

Members noted that

- The document has recently been updated, with revisions to the questions, which have also reduced in number
- The Self Assessment confirms the actions the College undertakes regularly to verify that its expenditure is appropriate and in accordance with relevant rules and guidance
- The Self assessment has been reviewed by the external auditor as part of their year end audit function
- The Principal and Chair of Governors are required to sign the Regularity Self Assessment for 2013/2014 on behalf of the College

Members noted the key impact measures arising from the report.

#### **RESOLVED**

The Audit Committee endorses and commends the Regularity Self Assessment: Year Ended 31 July 2014 to the Corporation Board for acceptance and approval

#### **AC.45.14 AUDIT FINDINGS REPORT: YEAR ENDED 31 JULY 2014**

The External Auditor presented the draft Audit Findings Report: Year Ended 31 July 2014.

The Committee considered the detail of the Report, in particular

- Audit, accounting and regularity issues identified at planning stage
- Audit, accounting and regularity issues identified during the audit
- Unadjusted/adjusted misstatements
- Deficiencies in internal control
- Fees

- Independence

The Letters of Representation: Regulatory Audit and Financial Statements Audit were included as appendices to the report and members were satisfied with the assurances provided in each.

The external auditor advised members that there were no issues to raise and that he did not wish to meet with the Committee 'in camera' to discuss any matters.

#### **RESOLVED**

The Audit Committee endorses and commends to the Corporation Board for acceptance and approval

- The draft Audit Findings Reports: Year Ended 31 July 2014
- Letter of Representation: Regularity Audit 2013/2014
- Letter of Representation: Financial Statements Audit 2013/2014

#### **AC.46.14 LETTER OF ENGAGEMENT: FINANCIAL STATEMENTS AND REGULARITY AUDIT – 2013/2014**

The Vice Principal: Finance and Resources presented, for consideration and approval, the draft Letter of Engagement: Financial Statements and Regularity Auditor – 2013/2014, between Baker Tilly UK Audit LLP and East Surrey College and the Chief Executive of Skills Funding.

Members considered the detail of the Letter with particular reference to

- Financial Statements
- Regularity, accounting records and transactions
- Information provided

#### **RESOLVED**

The Audit Committee endorses and commends to the Corporation Board for acceptance and approval the Letter of Engagement: Financial Statements and Regularity Auditor – 2013/2014 between Baker Tilly UK Audit LLP and East Surrey College and the Chief Executive of Skills Funding.

#### **20.00 Mike Cheetham and Mark Crowter left the meeting**

#### **AC.47.14 TENDER OF AUDIT SERVICES FOR 2014/2015**

The Vice Principal: Finance and Resources presented, for consideration and approval, a report recommending that the College tenders for an alternative external audit provider to take effect from 1 April 2015.

The Committee was reminded that the College has the same company, Baker Tilly, for both internal and external audit services. This situation was brought about in August 2013 when the previous internal audit provider, RSM Tenon, was taken over by Baker Tilly.

Members reviewed the background to the take over of RSM Tenon by Baker Tilly and noted

- As the 2013/2014 internal audit cycle had been approved in Summer 2013, the planned reviews took place as scheduled during the Autumn term
- The impact of the merger had not been fully assessed by the company at the time of the meeting of the Audit Committee in November 2013
- the 2013/2014 Letter of Engagement was not presented to the Audit Committee until the April meeting which indicated that the reports issued will be 'on the internal controls' at ESC and excluded providing an Annual Internal Audit Opinion to the Board

Members had been advised by the Internal Auditor earlier in the meeting that as Baker Tilly provide both internal and external audit services, they are unable to give

a formal opinion as this could give rise to a conflict of interest between the two entities, Baker Tilly UK Audit LLP and Baker Tilly Advisory Services LLP.

Members were advised that

- the College seeks to obtain an Annual Internal Audit Opinion to the Board which can only be achieved by splitting either one or both of the services away from the same company
- the risks to the college of losing either the internal or external service has been assessed internally with the Principal and the following case has been discussed for maintaining the current internal audit service:
  - the 2014/2015 internal audit reviews have already commenced
  - the service has been tendered within the last 3 years
  - the company undertakes Funding Audits for the Skills Funding Agency and offer training to Colleges and feedback from the work undertaken
  - the high value that is placed on the expertise of the staff on data funding matters, which provides added value to the College

Members considered the proposal and agreed that for 2014/2015 the external audit service is re-tendered with a view to appointing a new external auditor for the 2015 Annual Financial Statements.

#### **RESOLVED**

The Audit Committee endorses and commends the re-tendering of the external audit service for 2014/2015 to the Corporation Board for acceptance and approval.

#### **20.15 Dr Barbara Spittle left the meeting**

#### **AC.48.14 ANNUAL RISK MANAGEMENT REPORT: 2013/2014**

The Vice Principal: Finance and Resources presented, for consideration and approval, the Annual Risk Management Report: 2013/2014.

The Committee was advised of

- the requirement of the Committee to oversee the College's risk management process in accordance with its Terms of Reference
- the requirement of the Committee, in accordance with the Joint Audit Code of Practice, to provide in its annual report, an opinion on the adequacy and effectiveness of the College's risk management

Members considered the detail of the Report, noting

- Clause 2 – Threats and opportunities
- Clause 3 – Corporation responsibilities for risks
- Clause 4 – Other risk registers
- Clause 5 – Management of risks

The Committee noted the key impact measures of the report.

#### **RESOLVED**

The Audit Committee endorses and commends the Annual Risk Management Report: 2013/2014 to the Corporation Board for acceptance and approval.

#### **AC.49.14 RISK MANAGEMENT: AUTUMN TERM 2014**

The Vice Principal: Finance and Resources presented a report which provided an update on

- The college risk review process for the Autumn Term 2014
- The monitoring of the following risks
  - Risk S9: Severe business disruption
  - Risk 03: Failure to maintain timely and accurate student data

Members were advised that the report included a summary of the high level contributory factors for each risk monitored by the committee, in order to provide more succinct information for Strategic monitoring. The medium and low level contributory factors will continue to be monitored by the internal Risk Management Committee. The Risk Management Plan was also now linked to each of the contributory factors rather than the overall risk as previously. The format of the report is still in progress, and feedback was welcomed. The Finance and Resources Committee had also been advised of this update at their recent meeting.

Members considered and discussed:

- Risk S9: Severe business disruption – low risk. Members noted that the risk encompasses the response to external factors eg. Pandemics, damage to buildings, together with more localised instances and considered two key changes which had been identified but which did not affect the overall assessment.
- Risk 03: Failure to maintain timely and accurate student data – significant risk. Members noted that this has been updated for the current checks undertaken on the new 2014/15 ILR. As there have been no substantial changes this year to the funding methodology, this is further ahead than the same time last year. However, additional monitoring on the timeliness of the wbi reviews by Executive has been implemented to ensure accuracy. This risk overall remains medium.

Members noted the key impact measures of the report.

#### **RESOLVED**

The Audit Committee endorses and commends to the Corporation Board the Risk Register: Autumn 2014 relative to the risk assignments

#### **AC.50.14**

#### **ANNUAL REPORT OF THE AUDIT COMMITTEE: 2013/2014**

The Clerk to the Corporation presented the Annual Report of the Audit Committee on the work of the Audit Committee during 2013/2014.

Members were advised that the Audit Committee is required to provide an annual report to the Board and to the Principal and Chief Executive, which outlines the work undertaken by the Committee, and how the Committee has fulfilled its responsibilities as set out in its Terms of Reference and Standing Orders.

Members considered the details of the Report, with particular reference to

- Clause 8 – Internal Audit
- Clause 9 – Financial Statements Audit
- Clause 10 – Regularity Audit
- Clause 11 – Risk Management
- Clause 13 – Conclusion

The Committee noted the key impact measures of the report.

#### **RESOLVED**

The Audit Committee approves the Annual Report of the Audit Committee to the Corporation Board and to the Principal and Chief Executive of East Surrey College: 2013/2014, subject to minor amendment, and commends the Report to the Board for acceptance and approval.

#### **AC.51.14**

#### **ANNUAL REVIEW OF THE RESTRICTED MINUTES OF THE MEETINGS OF THE AUDIT COMMITTEE**

The Clerk to the Corporation presented a report which outlined the basis on which, in accordance with Instrument 17(4), it is appropriate for the Committee to review the restricted minutes of the meeting of the Committee held during the current and previous years.

The Committee was advised of the criteria for confidentiality which would need to be considered in this regard and noted that, in granting the release of any document for public record, the background reports and any other information considered at the time would also need to be released for public record.

Members were informed that the minutes to be considered for review were the minutes of the meetings of the Committee, restricted in accordance with the requirements of Section 22 of the Freedom of Information Act 2000, held on 23 June 2011 and 1 December 2011.

Members discussed the restricted minutes of the meetings in the light of the background papers to the meetings and determined that it was now appropriate to release these into the public domain as the tender process to which they refer occurred over 3 years ago.

The Committee was advised that a further review of any restricted minutes would take place at the equivalent meeting in 2015.

#### **RESOLVED**

The Audit Committee approves the de-restriction of the minutes of the meetings held on 23 June 2011 and 1 December 2011

#### **AC.52.14**

#### **TERMS OF REFERENCE AND STANDING ORDERS: 2014/2015**

The Clerk to the Corporation presented a report which outlined the need to review the Committee's Terms of Reference and Standing Orders.

Members were reminded that the Terms of Reference and Standing Orders for 2014/2015 had been approved at the meeting held on 12 June 2014. However, it is necessary to review these again as a consequence of the adoption of the Audit and Accountability Annex and in the light of the provisions of the Joint Audit Code of Practice Part 2.

Members reviewed the proposed amendments and agreed there were no further changes required.

Members noted the impact measures arising from the report.

#### **RESOLVED**

The Audit Committee approves and commends to the Board the Terms of Reference and Standing Orders of the Audit Committee: 2014/2015, amended December 2014.

#### **AC.53.14**

#### **SHARED SERVICES IN SURREY AND SUSSEX COLLEGES**

The Vice Principal: Finance and Resources presented an update with regard to Shared Services in Sussex and Surrey Colleges (SISSC).

Members were advised that

- a new Executive Project Manager has been appointed
- system implementation and configuration and set up continues in preparation for three colleges going live
- the College continues to successfully use the SISSC system for HR and Payroll purposes
- negotiations with one of the partner colleges in financial difficulties has produced an offer below the full liability and negotiations continue



Members were advised that the Finance and Resources committee had also been updated with regard to SISSC and had raised a concern over the recruitment process for the new Executive Project Manager.

Members were concerned as to whether the recruitment process for this position had been transparent as partner colleges were unaware of the appointment being made. The Committee had suggested that a letter is sent to the Chair of SISSC asking for clarification and the Principal confirmed that this has now been done.

#### **AC.54.14 VALUE FOR MONEY**

The Vice Principal: Finance and Resources presented, for information and consideration, a report on Value for Money.

Members were reminded that ensuring Value for Money in the use of public funds is one of the College's strategic aims and reviewed the following 8 key areas identified as being of particular importance in assessing value for money:

- Contributions from each department
- Staff utilisation
- Room utilisation
- Benchmarking of key performance indicators
- Quotations over defined levels
- Regular monitoring of costs
- Regular monitoring of income
- Class size

Members were advised that as at 1 December 2014 the College is on track to meet the targets set in the Strategic Plan.

Members discussed the key areas of the report and suggested that Destinations could also be included.

Members noted the impact measures arising from the report.

#### **AGREED**

The Audit Committee receives and notes the report.

#### **AC.55.14 ANNUAL REVIEW OF THE BUSINESS OF THE AUDIT COMMITTEE**

The Clerk to the Corporation presented a report which provided a review of the Action Points arising from the meetings of the Committee during 2013/2014.

Members were reminded that, following each meeting of the Committee, a list of Action Points arising from the meeting is drawn-up and, at the next meeting, the list is reviewed in order to ensure that the appropriate action has been, or is being, taken.

The Committee was advised that the purpose of the report was to ensure that appropriate progress has been made against each of the identified actions required by the Committee.

Members agreed that all Action Points had been fully addressed to the satisfaction of the Committee.

The Committee noted the key impact measures arising from the report, in particular the Strategic and Risk implications.

#### **AGREED**

The Audit Committee receives and notes the report.

**AC.56.14 FOUNDATION CODE OF GOVERNANCE AND AUDIT AND ACCOUNTABILITY ANNEX: AUDIT OF COMPLIANCE**

The Clerk to the Corporation presented, for information, a report which outlined the College's Audit Review of Compliance with the Foundation Code of Governance.

The Committee was reminded that

- The English Colleges' Foundation Code of Governance was adopted by the College at the meeting of the Corporation Board held on 12 July 2012 and implemented with effect from 1 August 2012
- The Audit and Accountability Annex was issued on 31 March 2013
- The document was submitted for the information of the Audit Committee at the meeting held on 20 June 2013 at which it was noted that the document would be considered for formal adoption by the Corporation in light of the implications of the Joint Audit Code of Practice
- The Audit and Accountability Annex was adopted by the College at the meeting of the Corporation Board held on 10 July 2014
- The Terms of Reference and Standing Orders of the Audit Committee have been reviewed and amended as appropriate by the Audit Committee at the meeting held on 4 December 2014

Members noted that the document had been approved by the Search and Governance Committee for endorsement by the Corporation Board at the meeting to be held on 11 December 2014.

The Committee noted the key impact measures arising from the report.

**AGREED**

The Audit Committee receives and notes the report.

**AC.57.14 KPI DASHBOARD**

The Committee received and reviewed the KPI Dashboard to July 2014 as at Period 13 2014 and for September 2014.

**AGREED**

The Audit Committee receives and notes the document.

**AC.58.14 ANY OTHER BUSINESS**

Members noted that there was no other business.

**AC.59.14 DATES OF SCHEDULED MEETINGS: 2014/2015**

Thursday 12 March 2015 (this may be subject to change)  
Thursday 11 June 2015

All meetings commence at 18.00



**SIGNED AS A CORRECT RECORD:**

DATE: <sup>11</sup>/~~12~~ March 2015