

Minutes of the Audit Committee meeting held on 5 December 2017 at 4pm

The Boardroom, University Centre

Present Erika Stoddart, Philip Jackson, Lucy Ottewell-Key, John White

In Attendance Susan Bailey Clerk to the Corporation, Don Everitt Group Director Finance, Angela Smith, Group Accountant, Lisa Smith RSM, Deborah Watson Grant Thornton, Katy Docherty Grant Thornton

1 Apologies

Apologies were received from Robert Edwards.

2 Declarations of Interest

None declared. Members were reminded to declare their interests as and when necessary

3 Minutes of the Audit Committee Meeting held on 26 September 2017 and matters arising

The minutes were accepted as a true and correct record and signed by the Chair. Matters arising:

Min 8.2 Action Schedule: Group Internal Communications Strategy – update to be submitted to the next meeting of the Audit Committee.

4 Annual Internal Audit Report year ended 31 July 2017

RSM submitted the Annual Internal Audit Service report year ended 31 July 2017 and drew attention to the following:

The outcome of the internal audit reviews carried out during 2016-17 confirmed that the Grimsby Institute Group had an adequate and effective framework for risk management, governance and internal control. The results of the Internal Audit Reviews undertaken during 2016-17 were as follows:

- 4.3 **Income Generation** had resulted in a green (substantial) assurance level with no recommendations raised.
- 4.4 **Individualised Learner Record** had resulted in a green (substantial) assurance level with five low priority recommendation raised.
- 4.5 **Additional Learning Support** had resulted in a green (substantial) assurance level with one low priority recommendation raised.
- 4.6 **Financial Planning and Budgetary Control** had resulted in a green 'substantial' assurance level with one low priority recommendation raised.
- 4.7 **Marketing and Student Recruitment – The Institute and Scarborough TEC** had resulted in a green (substantial) assurance with one low priority recommendation raised.
- 4.8 **Staff Utilisation** had resulted in an amber (reasonable) assurance level with two medium and one low priority recommendations raised.
- 4.9 **Key Financial Controls** had resulted in an amber (reasonable) assurance level with three medium and five low priority recommendations raised.
- 4.10 **Apprenticeship Levy** had been an advisory review with no recommendations made.
- 4.11 **Follow up** reviews had shown good progress towards action taken in adhering to recommendations made.

RSM confirmed that the outcome of the Annual Internal Audit Report was positive and that all recommendations made by the Internal Audit Service during 2016 /17 had been accepted by management and either actioned or were in the process of being actioned. RSM confirmed that it was unlikely that any FE Institution in England could receive a 'no assurance' result during an Internal Audit review. The Committee thanked all staff concerned for their work to achieve such positive results and which it was agreed provided the committee with assurance over key areas of the Group's activities.

RESOLVED The Audit Committee received the Internal Audit Service Annual Report year ended 31 July 2017.

5 Risk Management Progress Report and Strategic Risk Register 2017-18

The College's Risk Management Progress Report 2017-18 and Strategic Risk Register 2017-18 were submitted, the main points of which were as follows:

- 5.1 The Group's Strategic Risk Register had been reviewed and ratings updated by the Risk Management Committee.
- 5.2 An additional risk had been added in respect of recruitment at Scarborough TEC.
- 5.3 The rating of the Modal risk with respect to its sustainability had been increased to red with a very detailed operational risk register for Modal now in place which also served as a detailed action improvement plan.

RESOLVED The Risk Management Progress Report and Risk Register 2017-18 was noted.

6 Board assurance framework and Aide-Memoire

The Group Director confirmed that following review of the Group's current Board Assurance Framework, approved by the Corporation in July 2017 he advised no changes currently to the framework but that amendments to streamline the document and adoption of a new approach would be submitted to the Audit Committee in due course.

RECOMMENDED The proposed Board Assurance Framework template and Aide-Memoire report was noted.

7 Annual Report of the Audit Committee 2016-17

- 7.1 The Clerk submitted the draft Annual report of the Audit Committee 2016-17, devised in line with the requirements of the new Post 16 Audit Code of Practice (Post 16 ACOP) published in March 2017. The Clerk confirmed that the proposed Annual Report of the Audit Committee used the format of previous years but incorporated all information required under the new Post 16 ACOP.
- 7.2 The report summarised the work of the Audit Committee during the course of the year 2016-17 and included an explanation of the work and responsibilities of the Audit Committee as set out in the Committee's terms of reference. The report concluded that the Audit Committee was satisfied that the College's audit arrangements, its framework of governance, risk management and control and its processes for securing economy, efficiency and effectiveness (value for money) were adequate and effective. The report confirmed the Audit Committee's view of its' own effectiveness was effective and had fulfilled its terms of reference as confirmed during the self-assessment of performance exercise carried out by Audit Committee members in September 2017.

7.3 The Committee were pleased to note the 100% attendance of members at meetings throughout 2016-17.

RECOMMENDED Subject to a minor amendment agreed at the meeting and Corporation approval of the Financial Statements and Audit Findings report for the year ended 31 July 2017 the Audit Committee recommended Corporation approval of the Annual Report of the Audit Committee 2016-17.

8 Estuary TV and Modal Training progress report

RESOLVED Minute 8 was classified as confidential in accordance with Clause 17 of the Instrument of Government.

9 Financial Statements Auditors

9.1 Financial Statements Management judgements 2017

The report detailing management's judgement on particular areas reflected in the Financial Statements was considered, the main points of which were as follows:

- The Grimsby Institute Group currently had loans of £5.9m with the requirement of a short-term credit facility to support operating cash flow required until the sale of the Scarborough Campuses.
- The credit facility was expected to be formalised during December 2017.
- Covenants applied to the Group's Santander Loan related to net assets, ratio of operating surplus to loan servicing costs and the requirement not to record an operating loss for more than two consecutive years.
- The Group had recorded losses in 2015-16 and 2016-17 however for 2017-18 an improvement in operating surplus to £579k was now evident.
- The Group had a reasonable expectation that it had adequate resources to continue in operational existence for the foreseeable future and for this reason would continue to adopt a going concern basis in preparation of the Financial Statements.

RESOLVED The Financial Statements Management judgements report 2017 was received.

9.2 Modal Letter of support 2017

Governors considered and reviewed the Modal Training Letter of Support submitted by Grant Thornton.

RECOMMENDED That the Modal Training Ltd Letter of Support from Grant Thornton is approved by the Corporation.

9.3 Modal Going concern report

The report summarising managements' view of Modal Training Ltd as a going concern was considered. The report also included Modal Projection 2018 income and expenditure calculations, Modal market analysis and opportunities for exploration. It was agreed that although Modal performance had not been in line with predicted budget the management team firmly believed that Modal was a going concern as it was predicted that business would increase in line with a revised growth strategy currently being implemented and the moderate and manageable operating cash requirements now in place.

RECOMMENDED that the Corporation affirm the view of management that Modal Training Ltd is a going concern.

9.4 Letter of Representation 2017

Governors considered the letters of representation for the Financial Statements Audit for the year ended 31 July 2017 submitted by Grant Thornton.

RECOMMENDED That the Letter of Representation for the Financial Statements Audit year ended 31 July 2017 is approved by the Corporation.

9.5 Grant Thornton Audit Findings Progress Report for GIFHE and subsidiary companies year ended 31 July 2017

Grant Thornton submitted the draft GIFHE Audit Findings Report for the year ended 31 July 2017 and reminded Governors that the report summarised the key findings of the audit of financial statements of the Group and detailed the audit, accounting and regularity issues identified during audit. Grant Thornton drew attention to the following key areas of audit focus, namely:

- Executive Summary
- Changes to the auditor's report
- Significant risks
- Reasonably possible risks
- Estimates and judgements
- Other matters – material matters
- Communication requirements
- Misstatements
- Internal control requirements
- Fees and non audit services
- Communication of audit matters for those charged with governance

Grant Thornton took Governors through key aspects of the Audit Findings Report 2017 the main points of which were as follows:

- The results of the Audit work had not highlighted any additional areas of risk not previously reported within the Audit Plan and all detailed work was substantially complete.
- Outstanding areas of work were as follows:
 - Finalised testing of valuations, impairments, loan covenants and regularity
 - Outstanding bank letter from the Bank of Scotland.
 - Review of going concern and subsequent events
 - Final review of financial statements
 - Receipt of signed letters of representation
- Key areas of focus for the audit work were:
 - Risk that revenue was materially misstated due to improper recognition of revenue
 - Risk of management override of controls
- Reasonably possible audit risks were:
 - Existence of fixed asset additions
 - Completeness of creditors
 - Valuation of debt balances and compliance with loan covenants
 - Valuation of land
 - Pension scheme valuations and judgements
 - Provision for doubtful debts
 - Impairment of Lady Edith's drive campus

- Grant Thornton anticipated giving an unqualified and unmodified opinion on the regularity of the Group's accounts and Group's subsidiaries accounts, subject to receiving confirmation from the ESFA and receipt of the final ESFA funding return, which was expected in advance of the Auditors sign off of the accounts.
- Grant Thornton had now updated their understanding of the Group's control environment particularly in relation to the systems and controls within the finance system.
- Two control recommendations had been identified in the current year relating to employment contracts and Journal descriptions and reference numbers and review of journal authorisation both of which had been positively responded to by management.
- Subject to receipt of the final ESFA funding return and reconciliation to the income recognised in the financial statements Grant Thornton had not identified any material issues in respect of revenue recognised.
- Two adjustments had been identified within GIFHE in respect of discounting to present value of the deferred consideration of the purchase of the Filey Road campus and Workforce Skills Ltd in respect to adjustment to capture liabilities that had not been appropriately treated at year end.
- Management had assessed the Group as a going concern (ie that the Group could continue to operate for at least 12 months) with the accounts prepared by Grant Thornton on that basis.
- Due to the dissolution of Estuary TV in year there had been no fee charged and no separate audit opinion provided.
- Grant Thornton's total Statutory Audit fees for 2016-17 totalled £34,700, an increase of £2330 from 2015-16.
- Grant Thornton confirmed that the work of the Financial Statements Audit was substantially complete and there were currently no matters which would require modification of their audit opinion, subject to the outstanding matters detailed within the report.

RECOMMENDED That, subject to finalisation of outstanding work highlighted within the report the GIFHE Audit Findings Report year ended 31 July 2017 be approved by the Corporation.

9.6 Self-Assessment Regularity Questionnaire 2017

Governors considered the completed Self-Assessment Regularity Questionnaire 2017. The Group Director Finance stated that as a requirement of the Post 16 Audit Code of Practice and in support of the statement of regularity, the Chair of the Corporation and Grant Thornton were required to sign off the Self-Assessment of Regularity prior to the final reporting of the year end audit work.

RECOMMENDED That the completed Self-Assessment Regularity Questionnaire be approved by the Corporation.

9.7 Members' Report and Financial Statements for the year ended 31 July 2017

Grant Thornton submitted the Members' Report and Financial Statements for the year ended 31 July 2017. Governors considered the report section by section concluding that the report and Financial Statements provided a positive outcome for the year ended 31 July 2017. Governors noted the following:

- The Group had consolidated accumulated reserves of £29,569k and a cash balance of £5,800k. The Group expected to continue to accumulate reserves and cash balances in order to maintain a contingency fund.
- The Group's decision to sell both original Scarborough campus sites had resulted in the value of these assets being appraised.
- Although Modal Training had produced a deficit in year of £610k no impairment was made to Modal assets as GIFHE governors and senior managers believed future trading would improve and the company would be able to repay the investment.

The Chair thanked Grant Thornton and all members of the Finance Team for another positive set of financial accounts achieved during a challenging year. It was unanimously agreed to recommend the Financial Statements for the year ended 31 July 2017 for Corporation approval.

RECOMMENDED that the Members' Report and Financial Statements for the year ended 31 July 2016 be approved by the Corporation.

10 Emerging issues report

RSM submitted a report detailing the emerging issues currently effecting the sector and details of recent developments relevant to the college namely:

- Area review update
- Financial risks and Exceptional Financial Support (EFS)
- Non Levy apprenticeships and Adult Education Budget (AEB) funding
- Education Skills Funding Agency ESFA business plan 2017-18
- Data and General Data Protection Regulations GDPR / Cyber Security
- Taxation and VAT law
- Technical and Further Education Action 2017
- Apprenticeships beyond the levy

RESOLVED The RSM emerging issues report was noted.

11. Re-appointment process of Audit Service Providers 2018-19 onwards and review of performance of Internal Audit Service

The Committee completed the review of performance of the Internal Audit Service template agreeing that performance had generally been good in all areas.

Members were informed that the contract with both the Internal and External Audit Services would cease on 31 August 2018. It was agreed that whilst performance was good, as the Internal Audit Service had been the Group's Internal Audit Service for several years it would be necessary to go out to tender for Internal Audit Services to test the market. In respect of the Group's External Audit Service it was agreed that as Grant Thornton were relatively new to the Group and in order to maintain consistency it would be appropriate to extend the contract subject to continuing good performance and value for money.

RESOLVED That the College go out to tender for the services of Internal Audit in the Spring Term 2018 and recommend the renewal of the contract of the External Audit Service at the June 2018 meeting of the Audit Committee.

12 Any other business

It was agreed that a brief 10 minute meeting with Internal and External Auditors should take place prior to each meeting of the Audit Committee without the presence of management going forward.

13 Date and time of next meeting

Tuesday 6 March 2018 4pm – The Boardroom, University Centre

The meeting closed at 6 pm

Chair of the Audit Committee

Signed _____

Date _____

Action Schedule

No	Minute Title	Action by	Action required
3	Minutes of meeting 26.09.17 and matters arising	GD Marketing	Group Internal Communications strategy – update on progress to next meeting.
6	Board assurance framework and aide-memoire	GD Finance	Report to future meeting re new approach to Board Assurance Framework.
7	Annual Report of the Audit Committee 2016-17	Clerk	Submit to Corporation for approval 14.12.17 Send to ESFA by deadline 31.12.17
8	Estuary TV and Modal Training progress report	Clerk	Modal progress report to June 17 meeting. Clerk to add to ACOB
11	Re-appointment of Audit Service Providers	GD Finance Clerk	Commence tender process for Internal Audit Services January 2018 onwards. Appt of Audit Services add to ACOB for June 2018.
12	Any other business	Clerk	Schedule 10 min meeting with Auditors / Audit Committee (without management)