

**PART A      Draft Minutes of the Audit Committee meeting held on 4 December 2018 at 4pm**

**The Boardroom, University Centre**

**Present** Lucy Ottewell-Key (Staff Governor) Philip Jackson (Interim Chair) Robert Edwards, John White, Mike Stopper.

**In Attendance** Susan Bailey Clerk to the Corporation, Don Everitt Group Director Finance, David Hoose Mazars, Andrew McCulloch TIAA.

Prior to the meeting at 3.45 pm members of the Audit Committee met with the Internal and External Audit service without management present in order for members and the auditors to give feedback / raise any queries privately (See part B minutes)

**1. Acting Chairs welcome**

1.1 Following introductions the Chair welcomed Mike Stopper to his first meeting of the Audit Committee as a co-opted external member.

**2 Apologies**

2.1 There were no apologies for absence.

**3 Declarations of Interest**

3.1 There were no declarations of interest.

**4 Minutes of the Audit Committee Meeting held on 25 September 2018 and any matters arising**

4.1 The minutes of the Audit Committee meeting held on 26 June 2018 were accepted as a correct record and signed by the Chair.

**5 Internal Audit Service progress report on Internal Audit Plan 2018-19**

5.1 TIAA submitted the Internal progress report on the Internal Audit Plan 2018-19 which confirmed the following:

- a) No emerging risks which could impact the overall effectiveness of governance, risk and internal control framework of the organisation had been identified.
- b) There had been no audits finalised or any changes proposed to the annual plan since the previous meeting of the Audit Committee.
- c) TIAA had been advised of a cash loss and had therefore attended a meeting of the Fraud Response Group with appropriate action taken (and ongoing) by the TEC Partnership.
- d) An audit committee newsletter had been issued in September 2018 – it was agreed this should be forwarded to the Audit Committee accordingly.

- e) The Audit plan for 2018-19 now included finalised dates for upcoming audit work with the exception of ICT Network Security and Cyber Security with a review date to be confirmed imminently.
- f) The Audit plan was risk based and reviewed on a continuing basis throughout the year with any issues arising and any potential risks incorporated accordingly.
- g) The Audit plan was not set in stone and could be adapted based on results of field work and any issues picked up by the technical team.

**5.2 RESOLVED** The Internal Audit Service progress report on Internal Audit Plan 2018-19 was received and noted.

## **6. Risk Management progress report and risk register update 2018-19**

6.1 The Group Director Finance submitted the TEC Partnership's most up to date Risk Register confirming there had been little change since the last meeting. Members requested reintroduction of arrows within the document to indicate a reduction or increase in particular risks.

6.2 During review members requested cyber security be added to the risk register.

**6.3 RESOLVED** The Group's Risk Management Progress Report and Risk Register 2018-19 were noted.

## **7 Board Assurance Framework 2018-19 update**

7.1 The Group Director Finance provided a verbal update on the current status of the Group's Board Assurance Framework 2018-19 stating that a proposal was to be submitted to the Audit Committee in March 2019. The Clerk provided feedback from a recent workshop she had attended at which RSM and Rollitts Solicitors had provided helpful guidance for FE Colleges on devising a Board Assurance Framework and which provided a starting point for the Audit Committee, Group Director Finance and the Internal Audit Service to develop accordingly.

**7.2 RESOLVED** the Board Assurance Framework update report was noted.

## **8. Audit Committee Self-Assessment of performance 2017-18 including Audit Committee terms of reference.**

8.1 The Audit Committee collectively completed the CIPFA Self-Assessment questionnaire for Audit Committees. It was noted that all evidence based questions had been completed by the Clerk prior to the meeting (previously circulated). Members discussed each question in turn – it was agreed that the Clerk incorporate the agreed answers into the completed questionnaire and record follow up action. Key issues highlighted during the self-assessment exercise were as follows:

- a) Members agreed that the role and purpose across the institution was understood and accepted by relevant staff (i.e. management) but that it was unlikely front line staff would be aware.
- b) It was agreed that committee members understood the interface between committees with financial responsibilities (i.e. local boards) and the corporation and how they related to each other.
- c) The Audit Committee demonstrated appropriate commitment as evidenced by latest overall attendance data showing 89% during 2017-18.

- d) In respect of question 46 it was agreed that to increase the Audit Committee's familiarity with risk management, control and governance a schedule of visits to departments could be arranged throughout the forthcoming year.
  - e) It was agreed that the reports received at meetings were comprehensive but that enhancement to reporting to governors was a continual process. Members requested executive summaries of reports be considered for future meetings.
- 8.2 In conclusion the Audit Committee agreed that the results of the self-assessment exercise evidenced the Audit Committee's effectiveness in assessing and providing the Corporation with an opinion on the adequacy and effectiveness of the corporation's assurance arrangements for post-16 providers and the role, duties and responsibilities of the Audit Committee.
- 8.3 **RESOLVED** the collective results of the Audit Committee Self-Assessment questionnaire were agreed.
- 9. Annual Report of the Audit Committee 2017-18**
- 9.1 The Clerk submitted the draft Annual report of the Audit Committee 2017-18, devised in line with the requirements of the new Post 16 Audit Code of Practice (ACOP) published in March 2018. 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.
- 9.2 The report summarised the work of the Audit Committee during the course of the year 2017-18 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 that it had been effective and had fulfilled its terms of reference as confirmed during the self-assessment of performance exercise carried out by Audit Committee members earlier in the meeting. It was agreed that the report was comprehensive and should be recommended for Corporation approval.
- 9.3 Discussion took place around the addition of the statement within the Post-16 Audit Code of Practice that membership of the Audit Committee **should** not include staff governors. It was agreed that the terms of reference of the Audit Committee should be amended to reflect this but that the Audit Committee's existing staff member should remain a member until the end of term of office (subject to Corporation approval) The benefits and potential pitfalls of this issue were considered. It was agreed that the Corporation had a degree of flexibility around the guidance, ensuring the effective conduct of Corporation and Audit Committee business first and foremost.
- 9.4 Members were pleased to note the 89% attendance of members at meetings throughout 2017-18.
- 9.5 **RECOMMENDED** Subject to inclusion of details of Audit Committee meetings 2018-19, amendment of a typographical error and Corporation approval of the Financial Statements and Audit Findings report for the year ended 31 July 2018 the Audit Committee recommended Corporation approval of the Annual Report of the Audit Committee 2017-18.
- 10. Funds fraudulently obtained report.**

**RESOLVED** Minute 11 was classified as confidential in accordance with Clause 17 of the Instrument of Government.

**11. Modal Training Ltd**

**RESOLVED** Minute 12 was classified as confidential in accordance with Clause 17 of the Instrument of Government.

**12. Audit Completion Report year ended 31 July 2018 and letter of representation.**

12.1 Mazars LLP submitted their Audit Completion Report for the year ended 31 July 2018 summarising all audit conclusions and misstatements. Principle conclusions and significant findings relating to the following were set out in detail within the report as follows:

- Loan to Modal Training Ltd
- Estates Strategy
- Covenant compliance and going concern
- Management override of controls
- Income recognition
- Defined benefit pension scheme assumptions
- Depreciation
- Capital Expenditure
- Deferred Capital Grant release – College
- Transafe Training acquisition – Modal Training Ltd

12.2 Matters outstanding in relation to the following had resulted in Mazars LLP being unable to conclude the anticipated audit opinion as at 4 December 2018:

- Final reviews of the financial statements
- Support for the recoverability of the intercompany loan with Modal Training Ltd
- R14 Income Reconciliation from the ESFA
- Bank Audit letters
- Completed Regularity Self Assessment Questionnaire (SARQ)

12.3 Mazars LLP drew attention to the following key aspects of the Audit Completion Report, namely:

- Significant assumptions had been used in calculating the value of the Local Government Pension fund (LGPS) deficit as at 31 July 2018 concluding that the actuarial assumptions used in the calculation of GIFHE's share of the Local Government Pension Scheme deficit were reasonable with the exception of the salary growth assumptions.
- Modal trading losses in previous years and during 2017-18 had increased the risk that the loan would not be recoverable. Due to the infancy of Modal and the delay in securing business and sales Mazars LLP had not classified this as an irregularity.
- The latest version of the Post -16 Audit Code of Practice specified that a significant fraud over £10k would result in Auditors qualifying a college's accounts. It was agreed that current assurances received about the effectiveness of the internal controls in place to minimise this possibility provided the Audit Committee with the required level of assurance.

12.4 Members considered the letters of representation for the Financial Statements Audit for the year ended 31 July 2018 submitted by Mazars LLP and agreed to recommend these to the Corporation.

## **12.5 RECOMMENDED**

- a) That Mazars LLP Audit Completion Report year ended 31 July 2018 be approved by the Corporation.
- b) That the Management Representation letter for the audit year ended 31 July 2018 be approved by the Corporation.
- c) That the letter of representation for the Regularity Assurance engagement for the period ended 31 July 2018 be approved by the Corporation.
- d) That the Independent auditor's report to the members of the Gifhe Corporation be approved.
- e) That the regularity audit report be approved by the Corporation.

## **13.1 Self-Assessment Regularity Questionnaire 2017**

- 13.2 Members considered the completed Self-Assessment Regularity Questionnaire 2017-18. 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 Mazars LLP were required to sign off the Self-Assessment of Regularity prior to the final reporting of the year end audit work.

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

## **14. Draft financial statements 2017-18**

- 14.1 Mazars LLP submitted the Members' Report and Financial Statements for the year ended 31 July 2018 in line with the management letters previously submitted for review. Governors considered the report section by section concluding that the report and Financial Statements provided a positive outcome for the year ended 31 July 2018. It was confirmed that no significant audit adjustments had been made as a result of this years' financial statements audit. The following was also noted:

- The TEC Partnership had consolidated accumulated reserves of £30,315k (2016/17 £29,569k) and a cash balance of £4,370k (2016/17 £5800k). The TEC Partnership expected to continue to accumulate reserves and cash balances in order increase contingency funds.
- Tangible fixed asset additions for the TEC Partnership during the year amounted to £4,463k, split between buildings £2,272k, equipment £1,154k and assets under construction £1,038k. Assets under construction included a new engineering block at the Scarborough Campus and professional fees for the continued phased expansion of The Academy Grimsby (TAG)
- Modal Training had produced a deficit in year of £(987)k (2016/17 - £(610)k and therefore had not achieved budgeted level of performance. Governors and management had considered the impairment of Modal assets but believed that the assets and investment were supported by future trading and therefore repay the investment and avoid impairment.

- 5.2 The Chair thanked Mazars LLP and all members of the newly formed 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 2018 for Corporation approval.

**14.2 RECOMMENDED** that the Members' Report and Financial Statements for the year ended 31 July 2018 be approved by the Corporation.

**15 Date and time of next meeting**

**15.1 RESOLVED** Tuesday 26 March 2019 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
5	IAS progress report on IAS Plan 18-19	GD Finance / Clerk	Issue Audit Committee newsletter to Audit Members
6	Risk Management progress report and risk register	GD Finance	Reintroduction of arrows to indicate change in risk (up or down) Add Cyber Security risk to the Risk Register
7	Board Assurance Framework BAF	GD Finance / IAS	Submit proposed BAF to next meeting
8	Audit Committee Self Assessment Questionnaire	Clerk	Complete questionnaire based on discussions produce action plan for next meeting.
9	Annual Report of the Audit Committee	Clerk	Amend report, submit for Corporation approval, send to ESFA
	Minutes 12,13 and 14 relating to Financial Statements Audit	GD Finance / Clerk	Submit for Corporation approval