

**Minutes of the meeting of the Audit Committee
held in Room LSF24, North Devon campus
on 27th June 2017 at 18:00**

- Present:** Jenny Wallace (Chair), Kevin Finan, Lindy Stacey
- Co-opted:** Mark Tibbert, Thomas Westcott Chartered Accountants
- In attendance:** Jane Barton – Assistant Principal Corporate Services
Bill Blythe – Vice Principal Finance & Resources
Diane Dimond – Principal & Chief Executive
- Auditors:** Alastair Campbell – Internal Auditors, RSM (items 1-14)
Andrew Manning – Internal Auditors, RSM (items 1-14)
Richard Bott – Financial Statements Auditors, Mazars (items 1-14)
- Observer:** Iain Springate
- Clerk:** Bettina Walker – Governance Advisor

MINUTES

1. APOLOGIES

- a) The Committee was informed that Jeff Andrew had stepped down as a member of the Board, and that at its June meeting, ***the Board had appointed Jenny Wallace as the Chair of Audit Committee.***
- b) All current members of the Committee were present

2. DECLARATION OF INTERESTS

No declarations of pecuniary or non-pecuniary interests were made in respect of the items on the agenda.

3. CONFIDENTIAL ITEMS

The Committee noted that item 15, the appointment of Internal Audit Service, would be discussed without auditors present.

4. MINUTES AND MATTERS ARISING

16AC19

- a) The minutes of the meeting of the Audit Committee ***held on 28th February 2017 were confirmed as a true record and signed by the Chair.***
- b) **Item 1.4** – There were currently two vacancies on the Committee, and Iain Springate had been invited as an observer at this meeting with a view to being recommended to the Board as a future member.

- c) **Item 6.6** - The Vice Principal Finance & Resources reported that a full scale simulation exercise had taken place to test the College's Business Continuity processes. The exercise had taken the form of a simulated explosion in E-Block and had involved staff and students. The plan included summoning the emergency services to deal with the incident and informing key staff as well as the Chair and Vice Chair of the Board.

The exercise had been deemed a success with a number of lessons learned leading to a policy review and action points being implemented by the Senior Management Team. The policy and procedure could be accessed by all staff online, but was also available in paper form in key locations around the College, as well as with key staff.

As a result of the simulation exercise, ***the Business Continuity processes and procedures were being updated and would be presented to the Audit Committee during 2017/2018.***

5. BUSINESS BROUGHT FORWARD BY THE CHAIR

There was no business brought forward by the Chair.

6. STRATEGIC RISKS MONITORING AND BOARD ASSURANCE 16AC20

- a) The Assistant Principal Corporate Services presented the Dashboard of the College's key risks, which was in a RAG rated format. The Committee noted that, since the last meeting, two risks had their rating upgraded from green to amber, and another downgraded from amber to green.
- b) **Risk 1 – The organisation falls short against allocations in recruitment and funding for apprenticeships and HE activities** – had been upgraded to amber due to the increased reliance on HE and Apprenticeship income within the College, and the massive changes to funding methodology for Apprenticeships and continuing political uncertainty over HE loans.
- c) **Risk 15 – A major incident affecting business continuity** – had been upgraded to amber because of the current heightened security risks nationally.
- d) **Risk 18 – Inability to deliver and invest in cohesive and regularly reviewed Estates and IT strategies** – had been downgraded to green following ongoing reviews and recent reports by externally appointed Strategic Property Advisors.
- e) The Committee discussed the risk of cyber attack in the light of a number of high profile incidents nationally. IT security had recently been reviewed with a positive report on mitigation against a cyber attack at the College.
- f) The Committee also discussed a focus on reviewing inherent risk ratings before the next meeting: residual risk ratings, with their mitigating actions, were often the main focus during review.

- g) The Committee ***agreed the current risks and their ratings and were assured that mitigating actions were in place. The Committee noted that the Risk Register would be reviewed and mapped against the updated College Strategic Plan.***

7. INTERNAL AUDIT REPORTS

16AC21

7.1 Internal Audits 2015/2016

- a) The Committee received the Internal Audit Report by RSM and noted that the grading and comments for the areas audited were as follows:
- Cyber Security - Green - Substantial Assurance – 1 medium and 2 low recommendations.
 - Subcontracting - assurance for Skills Funding Agency that adequate controls were in place: 9 un-prioritised recommendations made.
 - Estates – planned and responsive maintenance: information that Governors and Senior Management Team receive gave a high level assurance regarding the condition of the Estate.
 - Funding Assurance - Green - Substantial Assurance – 3 minor issues reported.
 - Follow Up – reasonable progress made in implementing agreed management actions with 10 out 15 actions completed.
- b) The audit on Cyber Security had been undertaken at a number of colleges during the year and this had generated some best practice advice on how to prevent, detect and deal with a cyber attack. The audit at Petroc had given reasonable assurance that appropriate processes and procedures were in place. The recommendations were mostly around the formal documentation of guidance, and all the actions had been completed.
- c) The audit on subcontracting had been a requirement by the Skills Funding Agency (SFA) for any colleges with subcontracting provision of more than £100,000 that adequate controls were in place for the monitoring of contracts, including the quality of provision. Nine minor recommendations had been made and the College had received the certificate from the auditors on satisfying all the requirements.
- d) The audit on Funding Assurance was the equivalent of a Skills Funding Agency audit measuring compliance of learner records and funding income. The Committee was pleased to note that there was a high level of compliance, making Petroc one of the top colleges when benchmarked against other colleges audited by RSM.
- e) The Estates audit concluded that the College had provided examples of the assurances that the Governors received regarding the mitigation of key estates risks. Whilst the auditors had not carried out any validation testing of these, their opinion was that these appeared, when taken together, to present the Senior Management Team and Governors with a high level assurance regarding the condition of the estate.

- f) The Committee discussed that Governors' primary focus when considering the College estate and condition of buildings was the health and safety of students, staff and visitors, and therefore some more detail to give assurance might be useful. The Vice Principal Finance & Resources reported that there would be some detail in the 2017/2018 College Budget on planned maintenance for the year, as well as a less detailed plan for the following year.
- g) The Vice Principal Finance & Resources also reported that he was looking into processes to formally record appropriate conversations with the Estates team on maintenance, and the possibility of forming an Estates Group. Some of this reporting could then be used to support the higher level reporting to the Board.

7.2 Internal Audits 2016/2017 – Follow Up

The Internal Auditors reported that the majority of actions arising from audits during 2016/2017 had been completed and that, therefore, good progress had been made. This gave the auditors positive assurance which would help in forming an opinion for the Annual Report of Internal Audit.

8. INTERNAL AUDIT PROGRESS REPORT 16AC22

- a) The Committee received a report from the Internal Auditors on progress against the 2016/2017 Audit Plan. Governors were advised that all the planned work for the year had been completed.
- b) Governors' attention was directed to the summary report of emerging issues and financial reporting for FE Colleges provided by RSM.

10. EXTERNAL AUDIT STRATEGY 2016/2017 16AC23

- a) The Financial Statements Auditor from Mazars, took members through the Audit Strategy Memorandum for Petroc for the year ended 31st July 2017. The three main responsibilities of the audit were to:
- give an audit opinion on the financial statements;
 - assess the College as a going concern for 12 months from signing the accounts;
 - assess that there has been no fraud.
- b) The Committee noted that the significant risk and key judgement areas audited would be:
- Overriding controls;
 - Income recognition;
 - Fixed Assets – linked to Estates Strategy;
 - Going Concern and Financial Plans;
 - Defined Benefit Pensions Scheme Assumptions – with a report from actuaries at the November meeting
 - Depreciation – key assumption area
 - Restructuring Provisions
 - Bad Debt
 - Clawback
- c) The Committee ***agreed to recommend Mazars' Audit Strategy Memorandum and terms of engagement, for approval by the Board.***

- 11. COLLEGE AUDIT MONITORING REPORT 16AC24**
- a) The report tracked progress of actions on the recommendations made in internal and external audit reports. The Committee noted the good progress made in the implementation of audit actions.
- b) The Committee discussed that some actions were difficult to ever complete because these were ongoing actions. As the Committee was assured that action was being taken, it agreed that these actions could be marked as completed and taken off the monitoring report.
- 12. PERFORMANCE INDICATORS FOR AUDIT SERVICES 16AC25**
- The Committee reviewed the performance indicators for the Internal Audit Service and the Financial Statement Auditors, noting that these were standard in the Sector. The Committee ***agreed the use the performance indicators for the Internal Audit Service and the Financial Statement Auditors during 2017/2018.***
- 13. ACCOUNTING POLICIES 16AC26**
- a) The Vice Principal Finance & Resources reported that the publication of the Association of Colleges' Accounts Direction Handbook, which included the model for 2016/2017 accounts had been delayed, and that there was uncertainty regarding changes to agency arrangements, for example the accounting treatment of the apprenticeship levy.
- b) The Financial Accounting Policies had been revised as far as possible, removing the transitional arrangements of moving over to FRS102. With agreement of the Financial Statements Auditor, the College proposed to change the depreciation of asset criteria to start in the month when the asset came into use, rather than the whole 12 months.
- c) The Committee noted the amendments made to the Accounting Policies to date, and that further changes may be made once the Accounts Direction guidance had been received. Any changes would be reported at the November meeting of the Committee when they were applied to the 2016/2017 Financial Statements.
- 14. COMMITTEE TERMS OF REFERENCE AND MEMBERSHIP 16AC27**
- a) The Committee reviewed the Terms of Reference and noted some minor revisions to wording.
- b) The Committee discussed its membership and noted and supported the Search & Governance Committee's proposal that Iain Springate should join the Committee. The Search & Governance Committee would be discussing committee membership and making recommendations to the July Board meeting.
- c) The Committee ***appointed Lindy Stacey as the Vice Chair of the Audit Committee.***

The Audit Services representatives left the meeting

15. INTERNAL AUDIT SERVICE TENDERS - 2017/18 ONWARDS 16AC28

- a) The Committee noted that a call for tenders for had taken place during May using the current approved framework, and eight suppliers had been invited to tender. Out of the eight, five firms submitted a tender.
- b) The tenders were graded by the Vice Principal Finance & Resources and the Procurement Officer using published criteria: annual cost, price (composite rate), quality of service and resourcing (days).
- c) As a result three firms had been invited to make presentations:
Gateway Assure Ltd
Haines Watts and
RSM (incumbents)
- d) The Panel for the presentation were the existing Audit Committee members including the co-opted member and member elect, the Principal & Chief Executive, Vice Principal Finance & Resources, Assistant Principal Corporate Service and Governance Advisor.
- e) Following the presentations, the members of the panel discussed the presentations, but before making a recommendation to the Board, asked the Vice Principal Finance & Resources to investigate some further information to clarify some questions the panel had.
- f) The Committee hoped that this information would be available ***to enable the Committee members to communicate by e-mail and to make a clear recommendation to the Board for appointment for the preferred Internal Audit Service.***

DATES OF 2017/2018 MEETINGS

The Committee noted the dates of 2017/2018 meetings as follows:

Tuesday 21st November 2017 at 16:30

Tuesday 6th March 2018 at 16:30

Tuesday 26th June 2018 at 16:30

The meeting ended at 19:10