

Minutes of the meeting of the Audit Committee held on 28 June 2016 at 16:30, Barnstaple campus

- Present:** Martyn Gimber (Chair), Andrew Chapple, Andrew Pierce and Eirene Williams (Items 1-9 only)
- In attendance:** Jane Barton – Acting Director for Finance and Funding
Diane Dimond - Principal
Alastair Campbell – Internal Auditors, RSM (items 1-15)
Carol Davey – Financial Statements Auditors, Mazars (items 1-15)
- Observer:** Mark Tibbert, Thomas Westcott Chartered Accountants
- Clerk:** Bettina Walker

Private Meeting

Due to travel challenges and late arrivals, the private meeting with the Auditors without College officers present, did not take place. However, both the Internal Auditor and Financial Statements Auditors present reported to the full meeting that there would have been nothing to report.

1. Apologies for Absence

- 1.1 Apologies for absence were received from Jeff Andrew.
- 1.2 Mark Tibbert was invited to join the meeting as an Observer with a view to becoming a co-opted member of the Committee in future.

2. Confidential Items

- 2.1 It was agreed that the matters arising about the Engage 4 Life Project would remain confidential to the Governing Body for the time being.

3. Declaration of Interests

- 3.1 No declarations of pecuniary or non-pecuniary interests were made in respect of the items which follow.

4. Minutes

- 4.1 The minutes of the meeting of the Audit Committee held on 8th March 2016 were confirmed as a true record and signed by the Chair.

5. Matters arising from the Minutes

- 5.1 **Item 11 – Confidential –**

6. Business Brought Forward by Direction of the Chair

- 6.1 There was no business brought forward by direction of the Chair.

7. Strategic Risk Management and Board Assurance

- 7.1 The Risk Management Policy and Board Assurance Policy had been updated with a section on risk appetite in line with previous discussions of the Committee. There were no other significant changes.
- 7.2 The Committee discussed the Governing Body's role in judging the calibre of the Senior Management Team when the Governing Body's main contact was now mainly with just the Executive Management Team. This would be considered further for possible amendment.
- 7.3 The Committee also discussed the balance between ownership and oversight of risks, focusing on strategy and not operational matters, whilst remaining assured that risks were being mitigated. The Internal Auditor advised that the review of strategic risks should be seen as a useful management tool, and that individual governors needed to be comfortable about answering the following questions:
- a) I know what the College's key strategic risks are and
 - b) I am assured that there are processes and controls in place for those risks to be adequately mitigated.

RSM had run governor focus sessions on risk management at other colleges, and the Committee considered that this might be useful, with some time set aside for the Governing Body to discuss Board Assurance in detail.

- 7.4 The Committee was reminded that all papers and reports to Governors had a risk management element to them, and that risks were therefore being managed all the time. The Committee noted that risks would be presented to the Governing Body by exception.
- 7.5 The Committee recommended the Strategic Risk and Board Assurance Policy for approval by the Governing Body. It was agreed that the Chair of the Audit Committee would lead the discussion at the Board.

8. Internal Audit Reports

- 8.1 The format undertaken by RSM for the Funding Assurance audit followed the process used by the EFA/SFA in their audits. The Committee was pleased to note that the audit had received substantial assurance. Governors were advised that this benchmarked very highly in comparison to other colleges. The Audit Committee congratulated all staff involved in their excellent practice in this area.
- 8.2 The Committee noted that Funding Assurance was an annual audit, which, for the last few years, had received substantial assurance: 6 days had been allocated for the audit during 2016/2017. The Committee considered that, whilst recognising that a good outcome in this audit meant it less likely that the College would receive a Skills Funding Agency audit on funding, the College may like to consider a scaled back audit for next year, with some audit days being used for another area.

- 8.3 The Committee reviewed the Follow Up Report from RSM, and noted the good progress made in implementing audit actions, with 20 out of 25 actions completed, 2 ongoing, 1 superseded and 2 no longer necessary.

9. Internal Audit Progress Report

- 9.1 The Committee received a report from the Internal Auditors on progress against the 2015/2016 Audit Plan. Governors were advised that all planned work had been completed to date. The Strategic Planning and Board Assurance audit was taking place this week, and the outcome would be reported to the next meeting.
- 9.2 Governors' attention was brought to the summary report of emerging issues and financial reporting for FE Colleges provided by RSM.
- 9.3 The Committee briefly discussed the potential impact of Brexit on the FE Sector, considering the biggest immediate risk being a "decision hiatus", with normal parliamentary business being delayed. Although it was very early to know, the Principal reported that potential impact could include delays on the apprenticeship reforms, reduced European funding such as European Social Fund (ESF), Erasmus and growth funding through the Learning and Enterprise Partnerships (LEP). Although ESF and Erasmus funding would probably be certain for the next two years, there may be an impact on opportunities for bidding for European funds in the near future.
- 9.4 The Committee recommended that a strategic risk to do with the impact of Brexit should be considered for addition to the College's Strategic Risks.

10. Internal Audit Plan 2016/17

- 10.1 The Committee considered the internal audits proposed in the Internal Audit Plan 2016/2017 prepared by RSM and discussed their scope. A decision on the IT based audit would be taken once the Vice Principal Finance & Resources was in post. The Estates audit would be helpful to consider progress against the refreshed Estates Strategy being prepared as a key component of the data used for the Area Review.
- 10.2 The Committee agreed to recommend the Internal Audit Plan for 2016/2017, stating 36 Audit days, for approval by the Governing Body.

11. External Audit Strategy

- 11.1 The Financial Statements Auditor from Mazars, took members through the Audit Strategy Memorandum for Petroc for the year ended 31st July 2016. The Committee noted that the significant risk and key judgement areas audited would be:
- Going concern;
 - Overriding controls;
 - Income recognition;
 - Transition to FRS102;
 - Onerous lease;
 - Clawbacks and
 - Pensions.

- 11.2 The Committee agreed to recommend Mazars' Audit Strategy Memorandum and terms of engagement, for approval by the Governing Body.

12. College Audit Monitoring Report

- 12.1 The Committee noted the good progress made in the implementation of audit actions.
- 12.2 The Committee noted that the College staff appraisal system was due to be reviewed in detail and would be refocused on performance management.

13. Performance Indicators – Internal Audit Service and Financial Statement Auditors

- 13.1 The Committee reviewed the current performance indicators for the Internal Audit Service and the Financial Statement Auditors, and agreed their use during 2016/2017.

14. Accounting Policies

- 14.1 The Financial Accounting Policies had been revised to comply with FRS102, and the Financial Statements Auditor explained the Committee the impact the changes would have.
- 14.2 The Committee asked about the basis for the depreciation rates stated in the paper, and asked for these to be clarified before agreeing for the paper to be presented to the Governing Body.

15. Annual Review of the Operation of the Audit Committee

- 15.1 The replies to the self assessment questionnaire received so far indicated that, although there were some differing views, Committee members were generally satisfied that the Committee had operated effectively over the last year. The remaining Committee members would complete the questionnaire, and the Chair of the Committee would contact individual members to discuss any areas of concern highlighted.
- 15.2 The Committee reviewed the Terms of Reference and noted some minor revisions to wording. The Committee reinforced the point that at least one member of the Committee should hold relevant accounting qualifications.
- 15.3 The Committee discussed the proposal based on good practice that there should be no cross over in membership between the Audit Committee and the other statutory committees, namely Remuneration and Search & Governance. Following discussion with input from the Auditors, the Committee considered that, although this would be an ideal position to get to, it may not be practical in the short term. The Committee recommended the other revisions to the Terms of Reference to the Governing Body for approval.
- 15.4 The Committee noted the need to clarify or appoint a Vice Chair of the Committee.
- 15.5 The Committee noted its Cycle of Business for 2016/2017.

16. Arrangements for Audit Services 2016/17

16.1 Internal Audit Services

- 16.1.1 RSM had been appointed as the College's Internal Audit Service on a three year contract for 2011/2012 onwards, with the possibility of extension for one year plus a further year.
- 16.1.2 The Audit Committee had discussed the possibility of going out to tender for Internal Audit Services from 2016/2017 onwards last year, but the Governing Body had agreed for the contract to be extended by a further year to afford some stability during discussions the College was having with Exeter College at the time, and because of forthcoming Area Reviews.
- 16.1.3 The Committee reviewed the current circumstances and agreed to recommend to the Governing Body the re-appointment of RSM as the College's Internal Audit Service for one further year, for 2016/2017.
- 16.1.4 The Committee also recommended that the College went out to tender for Internal Audit Services for 2017/2018 onward in early in 2017.

16.2 Financial Statements Audit Services

- 16.2.1 Mazars had been appointed as the College's Financial Statement Auditors in July 2012 on a three year contract for 2012/2013 onwards, with the possibility of extension for one year plus a further year.
- 16.2.2 In March 2015, following the initial three year contract, the Audit Committee recommended the extension of the contract by one year, to cover the 2015/2016 financial year. The Committee now recommended that the Governing Body approve the extension of the contract for a further year to cover the 2016/2017 financial year.
- 16.2.3 The Committee also recommended that the College went out to tender for Financial Statements Audit Services for 2017/2018 onward in early in 2017.

17. Date of Next Meeting

The Committee noted the dates of 2016/2017 meetings as follows:

Tuesday 22nd November 2016

Tuesday 28th February 2017

Tuesday 27th June 2017

There was a request to move the date of the next meeting to Tuesday 29 November and Committee members would be contacted to confirm this.

The meeting ended at 18:30