Minutes of the
AUDIT COMMITTEE MEETING
Monday 24 November 2014

Membership: Mehwish Ashfaq, Mark Carroll, Steven Crane *(Vice Chair), Veronica Lewis*, Gavin Williams (Chair)

In attendance: Kevin Watson (KW) - Principal
Alan Leak (AL) - Director of Finance
Mark Smith - Scrutton Bland: Financial Statements Auditors
Sam Clements - Baker Tilly: Internal Auditors
Elizabeth Daniels - Observer to the meeting

Clerk: Val Bartlett

1. REQUEST TO OBSERVE THE AUDIT COMMITTEE MEETING
The Audit Committee agreed that Liz Daniels (prospective new Governor) attend this meeting as an observer.

2. DECLARATION OF INTERESTS
None were declared.

3. APOLOGIES
Apologies had been received from:
Steven Crane – work commitment
Veronica Lewis – work commitment
Andrew Strickland (Scrutton Bland) – previous commitment

4. MINUTES OF MEETING HELD ON 16 JUNE 2014
The Minutes were agreed as a true record.

5. MATTERS ARISING
There were no matters arising.

The Committee agreed to move to Agenda Item 9

9. DRAFT – ANNUAL REPORT OF THE AUDIT COMMITTEE - 2013/14
The Clerk reported on the above.

The Audit Committee is required to provide an annual report to the Corporation on the work of the Audit Committee throughout the year. The Audit Committee agreed the content of this report in that it will:

- Follow the suggested model from the AoC Guidance on the Audit Code of Practice
- Include Performance Indicators relating to the Internal and Financial Statements Auditors
- Include the Audit Committee Terms of Reference
• Include a list of Governors who have served on the Audit Committee
• Include the fees charged by the Auditors
• Include a summary of Internal Audit recommendations and their implementation status

The Audit Committee approved the above format and noted that completion of the Performance Indicators for both sets of auditors will take place at the end of the meeting.

6. DRAFT FINANCIAL STATEMENTS AND AUDIT FINDINGS REPORT – 31 JULY 2014
The Financial Statements (FS) Auditor reported to the Committee on the draft FS for the year ended 31 July 2014.

It was reported that the audit process had gone very smoothly and that Scrutton Bland had received excellent support from the Director of Finance and his team.

The Audit Findings Report was then discussed in detail and the Committee noted the following in particular:

• Financial Performance – Income and Expenditure Account
  o The FS for the year ended 31 July 2014 show a surplus of £214k compared to a surplus of £135k in 2012/13
  o Total income has increased by £1,506,000 to £12,952,000 with recurrent grant income having increased by £783k
  o The college was awarded some BCIF funding, primarily for roofing repairs, of £663k
  o Total expenditure increased by £1,427,000 to £12,738,000.
  o Other operating expenses increased by £406k, exceptional project costs (roof repairs and IT works) increased by £663k and there has been an increase in staff cost of £243k

• Review of staff costs
  o Staff costs, excluding the FRS17 adjustment, have increased by £274,000 (3.6%) during the year
  o Staff costs as a % of total income (excluding deferred capital grants) have decreased to 66.5% compared to 69.1% in 2012-13
  o Staff costs are still running slightly below the benchmark for Sixth Form Colleges of approximately 70%
  o The budget for 2014-15 forecasts staff costs as a % of total income to be 69.5%
  o Staff numbers have reduced from 191 to 189
  o The average pay per FTE has increased by 2.79% in the year, from £32,466 to £33,354

8:20am AL joined the meeting

• Financial Position – Balance Sheet
  o The net assets for 2014 are £36,377k compared to £35,820k in 2013
  o Cash at bank and short term cash based investments have decreased by £2,048,000. The main contributing factor to the reduced cash position is the early part repayment of the bank loan of £1,500,000, for which an early settlement charge of £189k was levied. This transaction has reduced the level of fixed rate bank borrowings.
  o It was noted that the long term benefit of this part repayment far outweighs the short term costs
  o The pension scheme deficit has decreased over the year by £246k leaving a pension scheme deficit as at 31 July 2014 of £1,422k. This position is not out of line with the pension scheme deficit position amongst the sector
‘Going Concern’
- The college is on track to achieve its target for 16-18 student numbers in 2014/15
- The college currently has significant cash and cash deposit reserves of £2.4m.
- There are no indications that the college will face any cash flow issues in 2014/15
- During 2013/14 the college received £69,597 from the Post-16 Partnership. A similar
  level of income has been budgeted for in 2014/15
- It was highlighted that 2014/15 is likely to be the final year that a contribution is received
  from the Partnership as the Principal will step down from his position as Director at the
  end of the 2014/15 academic year
- The Committee was reminded that the income from the Partnership has been set aside
  for use on quality improvement initiatives and is shown separately in the monthly
  management accounts

Audit and Accounting issues identified during the Audit
- The Audit Committee was reminded that the Members of the Corporation are
  responsible for:
  - Preparing financial statements for the financial year
  - Ensuring that there is a sound system of internal control within the college
- The audit was planned having been provided with, and reviewed, all of the Internal
  Audit Reports which have been issued in the year
- The two recommendations made by the Internal Auditors regarding Key Financial
  Controls were noted by the FS auditors
- The Audit Committee was informed that an employee census check had not been
  carried out during 2013/14 and that this recommendation has been noted by
  management and will be implemented

Future developments
- For 2015/16 there will be a revised United Kingdom Reporting Standard, FRS 102
- The most significant change to impact on colleges will be the need to accrue holiday
  pay, where holiday due to staff has not been taken at the year end. It was acknowledged
  that the college has a year end of 31 July for annual leave

8:25am – SC joined the meeting

The FS auditor informed the Committee that the audit had gone smoothly, on time and according

to plan. There are no audit concerns and no adjustments are necessary.

In response to a Governor’s question regarding risk and how the college is placed compared to

others, it was noted that the college is in a strong position and this is backed up by the Internal

Audit reports. In addition, Sixth Form Colleges are at ‘less of a risk’ than F.E. Colleges due to having

fewer income streams.

The Director of Finance then reported to the Committee on the draft Financial Statements for

2013/14 which have been subject to audit by Scrutton Bland and amendments have been made as

required by them as the College auditors.

The Financial Statements for 2013/14 indicate that the College is in a strong financial position with

good cash reserves and operating position.
The following indicate the main highlights of the year 2013/14:

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income £,000</td>
<td>12,952</td>
<td>£11,446</td>
</tr>
<tr>
<td>Staff Cost % Income</td>
<td>66.8</td>
<td>69.7%</td>
</tr>
<tr>
<td>Surplus £000</td>
<td>214</td>
<td>135</td>
</tr>
<tr>
<td>Surplus %</td>
<td>1.6%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Cash Balances £,000</td>
<td>2,408</td>
<td>£4,456</td>
</tr>
<tr>
<td>Cash Days</td>
<td>70</td>
<td>151</td>
</tr>
<tr>
<td>Loan and Overdraft £'000</td>
<td>2,500</td>
<td>£4,000</td>
</tr>
</tbody>
</table>

Income has increased by £1,506,000 overall with the main changes being:

- **Funding Bodies**
  - Recurrent Grant 783,000
  - Deferred Grant/revenue re project 28,000
  - BCIF Funding 661,000
- Reduction of Aim Higher grant (15,000)
- Reduction in Tuition Fees including UEL (6,000)
- Partnership Income/Sport England funding 48,000
- Bank Interest 19,000
- Other net charges (12,000)

The surplus for 2013-14 is higher than that of 2012-13 with part of the increase in recurrent funding being related to student numbers and changes in the funding methodology.

The Balance Sheet is very strong with high cash/investment balances. Balances remain high despite repaying part of the loan and higher creditor balances during the year.

The Committee was then referred to the Statement of Corporate Governance and Internal Control and that, as a result of the Internal Audit reports and opinion and the FS Management Letter, which both indicate that there are sufficient controls in place, the Audit Committee recommends to the Corporation that:

> The college has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for “the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets”

The Chair of the Audit Committee thanked the auditors, the Director of Finance and his team for their efforts over the past year.

The Audit Committee agreed to recommend the current draft Financial Statements for 2013-14 to the Corporation, subject to any further amendments that may be necessary, which will, if any, be reported at the Corporation meeting to be held on 8 December 2014.

The Audit Committee noted the Audit Findings Report and the draft Letters of Representation which are to be approved by the Corporation.
The Committee noted the Internal Audit Annual Report for 2013-14 provided by Baker Tilly.

The Internal Auditor informed the Committee that for the 3 main areas - Governance, Risk Management and Control - the audit opinion is the same as last year i.e. amber.

The areas reviewed by Internal Audit during 2013/14 were:

<table>
<thead>
<tr>
<th>AREA REVIEWED</th>
<th>Type of Review</th>
<th>Number of Recommendations</th>
<th>Now implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>HIGH</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>Board Effectiveness</td>
<td>Advisory</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>Green</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Quality Assurance</td>
<td>Amber/Green</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Safeguarding</td>
<td>Amber/Red</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Key Financial Controls</td>
<td>Green</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Follow Up</td>
<td>Good Progress</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Learner Number Systems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Follow up</td>
<td>Good Progress</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>1</td>
<td>7</td>
</tr>
</tbody>
</table>

It was noted that the Internal Audit opinion for 2013/14 is:

“We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of Leyton Sixth Form College’s arrangements. In my opinion Leyton Sixth Form College has adequate and effective governance, risk management and control to manage the achievement of its objectives.”

The Audit Committee was reminded that there are only two opinions; adequate and effective or inadequate and ineffective.

The benefit of the Internal Audit Annual Report is that it is an added source of assurance for the Audit Committee and the Corporation regarding the College’s control and governance processes.

Members were reminded that the Internal Audit Annual Report is subsequently submitted to the EFA and forms part of its desktop review of the College. In addition it also forms part of the Audit Committee’s Annual Report to the Corporation.

The Audit Committee noted the Internal Audit Annual Report for 2013-14.
8. **RISK MANAGEMENT UPDATE AND ANNUAL REPORT 2013/14**
The Director of Finance reported on the above.

The Committee noted that the responsibilities of the Corporation in terms of risk management may be summarised as:

- An acknowledgement of responsibility for the system of internal controls
- An assessment that an ongoing process is in place for identifying, evaluating and managing significant risks
- An annual process is in place for reviewing the effectiveness of the system of internal controls
- Determination that a process is in place to deal with internal control aspects of any significant issues which need to be disclosed in the Annual Report and Financial Statements, which fall under the terms of the Turnbull Committee

Governors were reminded that the College has a detailed Risk Management Policy, a Risk Management Action Plan and an abbreviated version which covers the main risks the College faces. This is updated and approved each year.

In response to a Governors’ question it was noted that the College Risk Management Group meets during the year to monitor the Significant Risks, the Risk Management Action Plan and to consider any new potential risks.

The Audit Committee was advised that the Internal Auditors review risk management within all audits rather than as a separate risk management audit. The Internal Audit opinion is an Amber position which is regarded as positive and supportive of the process, although suggests changes may be required over time to take into account changing requirements including a revised structure to the Risk Register.

It was acknowledge that ‘significant risks’ continue to be brought to the attention of the Audit Committee.

Governors were informed that the Risk Management Policy is reviewed on an annual basis and that there are no proposed changes to the current Policy.

The College’s Draft Financial Statements require that a declaration is made regarding Risk Management. The declaration is based on whether the College was fully compliant or not. The draft Financial Statements declaration for 2013/14 is on the basis of full compliance, which is the view of management and supported by the Internal Audit opinion.

The Audit Committee noted the update position regarding Risk Management in the College.

The Audit Committee agreed to recommend the Risk Management Policy for approval by the Corporation.

10. **UPDATE ON IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS**
The Director of Finance reported on the above.

Governors were reminded that the Audit Committee does receive regular reports indicating the progress made on implementing the recommendations from the Internal Auditors.

The Committee noted those recommendations which are now considered to be fully implemented.
The Committee then discussed the one recommendation yet to be implemented which relates to the periodic existence checks on selected fixed assets to determine verification of all assets on a cyclical basis. It was noted that the Estates Team is to undertake these periodic checks and Governors requested that the estimated time for this recommendation to be completed be indicated. In answer to a Governor’s question regarding periodic checks, it was acknowledged that this will, in all likelihood, be on annual basis.

A Governor questioned the audit of “loose” items such as IT equipment and was reassured that the Register for IT is up to date and that the IT work undertaken over the summer contributed to this process.

The Audit Committee noted the update on the implementation of Internal Audit recommendations.

11. INTERNAL AUDIT STRATEGY 2014/15 TO 2016/17
The Internal Audit Service reported on the above.

Governors were informed that the areas to be subject to internal audit for 2014/15 are:
- Enrolment
- Learner Number Systems
- Compliance with the Foundation Code of Governance
- Key Financial Controls
- Follow up on previous recommendations

The Audit Committee noted the members of the Internal Audit Team and the Internal Audit Fees of £12,903 (plus VAT) for 2014/15.

The Audit Committee agreed to recommend the Internal Audit Plan for 2014/15 to the Corporation for approval.

12. AUDIT COMMITTEE TERMS OF REFERENCE 2014/15
The Clerk reported on the above.

It was noted that the core role of an Audit Committee in a college is to:

‘Advise the governing body on the adequacy and effectiveness of the college’s systems of internal control and its arrangements for risk management, control and governance processes….’

Following the Education Act 2011, the new freedoms and flexibilities and the Joint Audit Code of Practice (JACoP) it was acknowledged that the Corporation will be looking to the Audit Committee to advise them on what the college should do, as opposed to what it has to do.

Following a thorough review of the Audit Committee’s Terms of Reference in October 2013, no further changes were proposed for 2014/15.

Governors’ attention was drawn to the JACoP which states that the Audit Committee should include individuals with an appropriate mix of skills and experience to allow it to discharge its duties effectively. Collectively, Members of the Committee should have recent, relevant experience in Risk Management, finance and audit and assurance.

The Audit Committee agreed to recommend its Terms of Reference for 2014-15 to the Corporation at its meeting to be held on 8 December 2014 for approval and immediate application.

9:05am MS & SC left the meeting
13. **REVIEW OF THE PERFORMANCE OF THE AUDITORS IN 2013/14**

The Audit Committee discussed the performance of Scrutton Bland and Baker Tilly.

The Audit Committee agreed to recommend to the Corporation the re-appointment of Scrutton Bland (Financial Statements Auditors) and Baker Tilly (Internal Auditors) for 2014/15.

14. **ANY OTHER BUSINESS**

The Audit Committee noted that this was the last Audit Committee meeting for Mehwish Ashfaq as she will be stepping down as a Governor on 31 December 2014.

The Chair thanked Mehwish for her helpful contribution as a member of the Audit Committee.

The Corporation is to be advised of this vacancy and an additional Audit Committee Member is to be sought.

These minutes were agreed as a true record

Signed: .......................................................... Date: ..................................................

VB

GW