Members present: Mr D Craig (Chair), Mr N Dart, Mrs D Howie, Mr R Poundford and Mr P Cook (observer)

In attendance: Ms C Leece (Baker Tilly), Mr C Barrett (Baker Tilly), Mr J Creed (Iccca-ets)

Officials: Mr P Hastie (Vice Principal: Corporate Planning and Performance), Mrs F Sharp (Finance Director) and Mrs L Smith (Clerk)

Apologies: Mr D Johnson

Declarations of Interest
There were no declarations made.

A15/01 Agenda Item 1 - Appointment of Chair and Vice Chair

Mr D Craig was appointed Chair and Mr R Poundford was appointed Vice-Chair for the period to 31 July 2016.

A15/02 Agenda Item 2 - Standing invitation to auditors to speak with committee members

There were no matters that the auditors wished to bring to members' attention.

A15/03 Agenda Item 3 - Approval of minutes of previous meetings

Members approved the minutes of a meeting held on 2 June 2015 as an accurate record and noted the updated actions. Members accepted the update on consideration of disaster planning and suggested that more detail was required.

A15/04 Agenda Item 4 - Notification of items of other business

There were no items for consideration at the end of the meeting.

A15/05 Agenda Item 5 - Outstanding actions status report

A report had been circulated indicating that there are no outstanding external actions and all actions are deemed to be completed. The Finance Director confirmed that the status of all actions will be validated in the next internal audit of previous actions.

A governor queried whether the staff structure at Bede reflected the agreed establishment. It was suggested that the HR Director would be able to clarify the current staff structure, however the Vice Principal: Corporate Planning and Performance explained that the level of staff resources is monitored and assessed through the performance review process.
Responding to a governor query, the Vice Principal: Corporate Planning and Performance stated that salaries at SRC Bede were likely to be in line with the sixth form sector. However, a review of pay had been carried out with the result that no increases had been made. Again, the HR Director will be able to provide clarification.

The Vice Principal: Corporate Planning and Performance explained that harmonisation of pay across the College was not feasible. Following restructure, the staffing establishment now comprises a number of separate business units each led by a Head of Department who has the flexibility to appoint staff on different terms and conditions that are deemed appropriate to the roles being undertaken.

Governors received and noted the report.

A15/06 Agenda Item 6 - Internal Audit Annual Report and Annual Report of the Audit Committee 2014-15

A report had been circulated summarising the work of the College's Internal Audit Service provider aligned to the College's approved Internal Audit Plan 2014-15. The Plan had been prepared following a detailed Annual Organisational Assessment carried out by the internal audit providers to enable Ica -ets to form an opinion on the adequacy and effectiveness of the College's risk management, control and governance processes.

Mr Creed spoke to the report and explained that the Annual Internal Audit Report is one element of the framework designed to provide assurance to the governing body and the Principal as Designated Accounting Officer, and other sources include the Skills Funding Agency, Ofsted and learners through a number of regularly held annual surveys and focus groups.

Section 2 of the report provides an overview of the areas, systems and risks reviewed during the year 2014-15 and gives an opinion on the adequacy and effectiveness of the College's governance, risk management and control arrangements. From work carried out, internal auditors were satisfied that they could give reasonable assurance that the College has adequate policies, procedures and operations in place to manage the achievement of its objectives.

Section 3 of the report provides a summary of work undertaken during 2014-15 and associated assurance opinions and recommendations, as well as the key findings arising from internal audit work. In total, eight audits had been undertaken resulting in formal assurance reports being issued and presented to the committee during the year. One advisory review was also carried out relating to NETA Training Trust and the findings presented to Audit Committee at an exceptional meeting. The Chair confirmed that the due diligence exercise had provided a level of external benchmarking for the committee in terms of addressing various issues around the proposal to merge with NETA. Members acknowledged the work of internal auditors and the Strategic Partnerships Task and Finish Group as being instrumental in bringing the proposed merger to a successful conclusion.

Mr Creed advised that 30 days of internal audit coverage had originally been agreed for 2014-15. However, at the request of management and with the agreement of the Audit Committee the audit in respect of the learner journey: recruitment and retention was replaced with a review of the risk management arrangements.
associated with NETA Training Trust. Thus, no additional days had been incurred and the learner journey audit is scheduled in the Audit Plan 2015-16.

Section 4 of the report makes reference to the Key Performance Indicators and Section 5 confirms that there has been no conflict of interest in the work undertaken on behalf of the College. Mr Creed advised that three additional pieces of work had been carried out involving interim MIS support, support with the SFA (Provider Financial Assurance) Eligibility Funding Audit and a review of options appraisal criteria. It was noted that at 5.2 the report incorrectly stated that auditors had not provided additional services during 2014-15. Subject to removal of the word ‘not’ the committee accepted the report.

It was agreed:

i) that the Internal Audit Annual Report form an appendix to the Annual Report of the Audit Committee;

ii) to recommend acceptance of the above report to the Corporation.

A draft Annual Report of Audit Committee had been circulated summarising the work of the committee during 2014-15. The Chair explained that the report is factual based on the actions taken by the committee to ensure that the College’s risks are monitored and demonstrating that it has fulfilled its obligations against the respective terms of reference.

It was agreed:

i) to authorise the committee Chair to sign the Annual Report of the Audit Committee;

A15/ 07 Agenda Item 7 - Internal Audit Plan 2015-16

A brief report had been circulated seeking the committee’s approval to vary the Internal Audit Plan for 2015-16. The Finance Director explained that subsequent to the committee agreeing the Internal Audit Plan 2015-16 at their meeting in June, the Skills Funding Agency had announced the need for all providers engaging in partnership activities to commission a review of sub-contracting arrangements for 2015-16 and to submit a certificate, completed by an external auditor, by 31 January 2016.

Internal auditors had suggested that the planned audit for Data Security, IT Infrastructure and Disaster Recovery be reduced to a three day audit, enabling two days to be allocated for an audit of sub-contracting arrangements. The Senior Leadership Team had discussed and agreed this proposal.

The Chair referred members to the actions arising from Audit Committee meetings and highlighted an action outstanding in respect of disaster recovery which had been previously raised as an issue. It was noted that the Disaster Recovery Plan had been reviewed and updated. In addition, a system had been developed for incremental back-up and recovery which will undergo testing before full implementation. In considering risk, the Vice Principal: Corporate Planning and Performance noted that the committee was unaware of the contingency arrangements in place at NETA, if indeed there were any. It was agreed that the Vice Principal: Corporate Planning and Performance will bring back a proposal to the next meeting for the mitigation of risk against disaster at NETA. In addition, he will
arrange for the committee to receive a presentation on disaster recovery arrangements at a future meeting.

A governor queried whether there was funding available for auditors within the area review plans. The Vice Principal: Corporate Planning and Performance explained that an audit requirement is likely to arise in respect of due diligence as a result of subsequent recommendations.

It was agreed:

i) that the committee will consider audit requirements arising from the Tees Valley area review at their next meeting;

ii) that the variation to the Internal Audit Plan 2014-15 be approved.

**A15/08 Agenda Item 8 - Regularity Audit**

A completed questionnaire assessing the performance of the Corporation against compliance with requirements had been circulated. The Finance Director stated that the form had changed slightly from previous years and one of the main changes was in relation to the College operating as a going concern. A governor queried the response on page 7 in relation to subsidiary arrangements and the provision of regular reports to governors on performance. He considered that this had not been the case to date in respect of NETA. The Finance Director advised that the response indicated an intention to include NETA in the cycle of business for governors.

It was agreed to amend the response on page 7 to reflect the intention to provide reports on performance of subsidiary companies during 2015-16.

Subject to this amendment, governors noted and received the regularity audit self-assessment questionnaire.

**A15/09 Agenda Item 9 - Risk Management**

a) **Risk Management Effectiveness 2014-15**

A report had been circulated reviewing the committee’s risk management monitoring arrangements during 2014-15. The Finance Director confirmed that the internal auditors had considered the College’s risk management processes to be adequate and effective.

It was agreed to recommend to the Corporation that the College’s risk management processes for 2013-14 had been effective.

b) **Risk Management 2015-16**

A report had been circulated together with an updated Strategic Risk Register for 2015-16. Nine new risks had been added including those associated with NETA, area review, exploration of centralised services and the Prevent agenda. Updates were shown in bold type. The Finance Director explained that risks are monitored through the performance review.

It was noted that SP1.3 (decline in NETA success rates) is still a significant risk despite mitigation.
In addition SP2.5 (failure to comply with bank covenants) had moved from low risk to high risk. The Finance Director explained that this is due to the fact that the College had set a deficit budget for 2015-16 which may be in breach of one of the bank covenants. The College’s bankers are fully aware of the potential breach and have been supportive, to the point that they have suggested developing a range of options for the College to consider in advance of the year end. The Finance Director had carried out a sensitivity analysis to assess the impact of further funding reductions and had developed a five year financial plan which indicated that the only year where there is likely to be a problem will be 2015-16. The Finance Director will draw out key points for an update to the Corporation in October 2015.

A governor noted that there was only one risk against area review relating to a failure to engage with the process and a lack of influence on the strategic direction of FE within the Tees Valley. The net risk score was rated green on the RAG scale and members agreed that this should be raised to amber.

A15/10 Agenda Item 10 – Financial Regulations

A report had been circulated proposing a number of amendments to the Financial Regulations. The Finance Director advised that the Principal’s current approval limit of £100k had caused operational difficulties and it is proposed that the limit be increased to £150k to apply as an annual amount. A governor pointed out that if the limit was increased the Principal would be able to approve a purchase of £50k each year for five years which would equate to more than the approval limit. The Finance Director explained that an element of flexibility is needed to ensure that decisions can be made quickly.

Members approved an amendment to the Financial Regulations to increase the Principal’s purchasing approval limit to £150k, subject to such amounts being limited to the total contract value and recommended acceptance to the Corporation on that basis.

The Vice Principal: Corporate Planning and Performance tabled an outline of a mechanism that had been created to provide inter-company loans between wholly owned subsidiary companies of the College. He explained that an emergency loan of £20k had been provided to NETA to resolve a short term cash flow problem. In order to protect the value of the loan and any future loans made, the College is proposing to raise a charge (debenture) against the assets of NETA Training Trust.

Members queried whether the loans provided under the proposed debenture would be interest bearing, and if so what the rate of interest chargeable. They also wanted to know whether the loans would be made on a commercial basis in which case the College could earn risk-based interest. A number of issues were raised including the potential for the College to be charged interest on loans to facilitate the provision of interest free loans to its subsidiary companies. This may be unacceptable to the Corporation who have a duty to protect the College’s assets. External Auditors pointed out that the Corporation has a responsibility to maximise the return on its assets as well as to protect them, which could be balanced in the strategic interests of the Group, and after a discussion members agreed that there were arguments for and against the charging of interest on loans to subsidiary organisations merits further and wider discussion.

The Vice Principal: Corporate Planning and Performance stated that the Finance and Employment Committee had agreed the mechanism but had not agreed an interest
rate to be charged, if any. There were concerns raised that the provision of loans could become a revolving facility or a permanent liability which could be detrimental to the College’s financial position. It was also noted that whilst NETA is a subsidiary of Stockton Riverside College, the College remains a separate entity in law.

Members also asked if there was a likelihood of the college being exposed to significant and material financial risk through the loan facility and were assured that cash flow projections and monitoring arrangements would be put in place together with reporting mechanisms to ensure this aspect of financial performance would be effectively supervised by the Corporation.

The committee agreed to recommend to the Corporation acceptance of the additional section governing inter-company loans in principle, and to recommend further discussion at Finance and Employment Committee on the question of whether interest should be charged so that the Corporation could consider a recommendation in due course.

A15/11  Agenda Item 11 - New Finance System

A report had been circulated updating members on the new finance system: Open Accounts. Implementation is going to plan and remains on target for going live in March 2016.

In response to a question from a governor on the risk of slippage in the implementation project the Finance Director clarified that the existing system was licensed and would be supported for a period of several months beyond the projected go-live date of the new system.

The committee received and noted the report.

A15/12  Agenda Item 12 - Review of Committee Performance

The committee received and noted the report summarising its performance against the Terms of Reference. Responding to a governor query, the Clerk advised that reports from funding bodies were logged at notification and reported to governors through the relevant committee. With regard to allegations of fraud, the Clerk is involved in the process for dealing.

A15/13  Agenda Item 13 - Any other business

There were no items of any other business.

A15/14  Agenda Item 14 - Approval of documents for public inspection

It was agreed that the agenda, supporting documents and the draft minutes of the current meeting (when approved by the Chair) be made available for public inspection.

The meeting closed at 6.05 pm.
**ACTIONS ARISING FROM AUDIT COMMITTEE MEETINGS HELD**

**13 OCTOBER 2015**

<table>
<thead>
<tr>
<th>Minute reference</th>
<th>Item</th>
<th>Who</th>
<th>Action/ Update</th>
<th>By when</th>
</tr>
</thead>
<tbody>
<tr>
<td>A15/05</td>
<td>Clarify Bede staffing structure against establishment.</td>
<td>HRD</td>
<td></td>
<td>24.11.15</td>
</tr>
<tr>
<td>A15/05</td>
<td>Provide confirmation that sixth form salaries are comparable to those paid in the sixth form sector.</td>
<td>HRD</td>
<td></td>
<td>24.11.15</td>
</tr>
<tr>
<td>A15/06</td>
<td>To recommend acceptance of the Internal Audit Annual Report to the Corporation, which will form an appendix to the Annual Report of the Audit Committee</td>
<td>AC Chair</td>
<td>Corporation accepted the Internal Audit Annual Report at their meeting on 22 October</td>
<td>Completed</td>
</tr>
<tr>
<td>A15/06</td>
<td>The committee Chair to sign the Annual Report of the Audit Committee.</td>
<td>AC Chair</td>
<td>Signed</td>
<td>Completed</td>
</tr>
<tr>
<td>A15/07</td>
<td>Bring back a proposal to the next meeting for the mitigation of risk against disaster at NETA.</td>
<td>VP CPP</td>
<td>To accompany internal audit on disaster recovery at next meeting</td>
<td>15.3.16</td>
</tr>
<tr>
<td>A15/07</td>
<td>Arrange for the committee to receive a presentation on disaster recovery arrangements at a future meeting.</td>
<td>VP CPP</td>
<td>To be arranged for next meeting</td>
<td>15.3.16</td>
</tr>
<tr>
<td>A15/08</td>
<td>The committee will consider audit requirements arising from the Tees Valley area review at their next meeting.</td>
<td>FD</td>
<td>Area review underway - requirements arising will be considered at next meeting</td>
<td>15.3.16</td>
</tr>
<tr>
<td>A15/08</td>
<td>Recommend to Corporation that the variation to the Internal Audit Plan 2014-15 be approved.</td>
<td>FD</td>
<td>Variation approved by Corporation</td>
<td>Completed</td>
</tr>
<tr>
<td>A15/09</td>
<td>To recommend to the Corporation that the College’s risk management processes for 2013-14 had been effective.</td>
<td>FD</td>
<td>Recommendation accepted by Corporation</td>
<td>Completed</td>
</tr>
<tr>
<td>A15/09</td>
<td>Risk relating to area review - the net risk score to be raised to amber.</td>
<td>FD</td>
<td>Amended</td>
<td>Completed</td>
</tr>
<tr>
<td>A15/10</td>
<td>To recommend to the Corporation acceptance of an amendment to the Financial Regulations to increase the Principal’s purchasing approval limit to £150k, subject to such amounts being limited to the total contract value.</td>
<td>FD</td>
<td>Recommendation accepted by Corporation</td>
<td>Completed</td>
</tr>
</tbody>
</table>
### 20 MARCH 2013

<table>
<thead>
<tr>
<th>Minute reference</th>
<th>Item</th>
<th>Who</th>
<th>Action/ Update</th>
<th>By when</th>
</tr>
</thead>
<tbody>
<tr>
<td>A13/6 a</td>
<td>Consideration be given to disaster planning / business continuity exercise</td>
<td>PHa</td>
<td>Included in IA Plan for 2015-16 - further detail is required: a presentation to the Audit committee was suggested.</td>
<td>Completed in part</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Minute reference</th>
<th>Item</th>
<th>Who</th>
<th>Action/ Update</th>
<th>By when</th>
</tr>
</thead>
<tbody>
<tr>
<td>A15/10</td>
<td>To recommend to the Corporation acceptance of the additional section of the Financial Regulations governing inter-company loans in principle, subject to agreement on the question of whether interest would be chargeable.</td>
<td>FD</td>
<td>Recommendation accepted – F&amp;E to further discuss interest</td>
<td>Completed</td>
</tr>
</tbody>
</table>

**20 MARCH 2013**

<table>
<thead>
<tr>
<th>Minute reference</th>
<th>Item</th>
<th>Who</th>
<th>Action/ Update</th>
<th>By when</th>
</tr>
</thead>
<tbody>
<tr>
<td>A13/6 a</td>
<td>Consideration be given to disaster planning / business continuity exercise</td>
<td>PHa</td>
<td>Included in IA Plan for 2015-16 - further detail is required: a presentation to the Audit committee was suggested.</td>
<td>Completed in part</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Minute reference</th>
<th>Item</th>
<th>Who</th>
<th>Action/ Update</th>
<th>By when</th>
</tr>
</thead>
<tbody>
<tr>
<td>A15/10</td>
<td>To recommend to the Corporation acceptance of the additional section of the Financial Regulations governing inter-company loans in principle, subject to agreement on the question of whether interest would be chargeable.</td>
<td>FD</td>
<td>Recommendation accepted – F&amp;E to further discuss interest</td>
<td>Completed</td>
</tr>
</tbody>
</table>

---

Signed: ……………………………………………………………………………………………………..
Dated: …………………………………………………………….......

CS/Audit comm mins/13 October 2015