

LEEDS CITY COLLEGE

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON FRIDAY 9 DECEMBER 2016

Present

Jonathan Booth	Co-optee
Robert Clunas	Governor
Julie Drake	Co-optee
Cherry Fricker (Chair)	Governor
Christine Smith	Governor

The quorum for the meeting was three members (with a minimum of two governors)

In Attendance

Colin Booth	Chief Executive and Principal
Emily Chapman	SU President
Lydia Devenny	Chief Financial Officer
Melanie Halstead	Clerk to the Board
Mark Hilton	Head of Finance (Leeds College of Music)
Anastasia Morgan	RSM (internal auditors)
Clare Partridge	KMPG (external auditors)
Jane Pither	Deputy Principal Corporate Services
Lisa Smith	RSM (internal auditors)
Salma Younis	KPMG (external auditors)

The meeting was held at the Printworks Campus and started at 9.30am

MEETING ADMINISTRATION

1. Apologies for Absence

Apologies for absence were received from Robert Barnett (RSM – internal auditors).

2. Declaration of Interests in any Agenda Items

Members of the committee were reminded of the requirement to declare their interest in any agenda items; none were declared.

3. Minutes of the Meeting of the Audit Committee held on 7 October 2016

RESOLVED (A 27/16):

That the minutes of the meeting of the Audit Committee held on 7 October 2016 be approved for signature by the chair.

4. Matters Arising

Members considered the rolling list of actions/matters arising from previous meetings; all identified items had been or were on schedule to be completed in accordance with agreed timescales.

In relation to external audit fees for the financial year ended 31 July 2016, KPMG advised that the fees were in accordance with their tender submission. It was noted that KPMG's fees also benchmarked favourably. The committee agreed to review the issue of inflationary fee increases as part of any future procurement process for audit services.

EXTERNAL AUDIT – the following items were taken out of agenda order

7a. Audit Highlights Memorandum and Management Letter

KPMG presented their audit highlights memorandum and management letter for the financial year ended 31 July 2016. KPMG anticipated issuing clean audit opinions on both the financial statements and regularity audits. No adjusted audit differences, nor any unadjusted audit differences had been identified. Following their audit work KPMG had raised four recommendations; one of these related to the quality of evidence and authorisation of credit card transactions and the remaining three related to improving the IT access controls. These had been accepted by management and would be fully implemented by the end of January 2017. Committee members questioned whether any of the recommendations could be implemented sooner and the Chief Financial Officer confirmed that the action relating to credit card transactions had already been carried out. In relation to that particular recommendation, committee members queried whether it was necessary to go back further to check a larger sample; KPMG advised that they were very comfortable that expenditure was appropriate and did not feel it necessary to check a larger sample. One of the IT recommendations related to the need to remove access of leavers on a timely basis and, in response to a query from the committee, KPMG advised that this was a housekeeping issue hence being flagged as medium rather than high priority.

KPMG had also reviewed progress in implementing the prior year's recommendations and confirmed that the college had implemented all of the recommendations. Committee members queried whether the same issues with journals had been identified in the latest audit; KPMG confirmed that recent testing had not identified any such issues.

2015/16 was the first year the college and subsidiary accounts had been reported under the new accounting standard (FRS 102). The committee noted that this had had a significant impact on the accounting treatment of certain balances/disclosures, particularly pensions, grants, short term employment benefits and fixed assets. KPMG's audit approach had included audit of the restatement of the 2014/15 opening balances and consideration of the treatment of these balances at 31 July 2016 to ensure FRS 102 had been applied consistently.

Committee members queried the extent to which the college's financial forecasts had been reviewed as part of the audit. KPMG advised that these had been considered and taken into account as part of their sustainability and going concern conclusion, with an appropriate level of robust challenge by the auditors.

KPMG reported that no significant matters had arisen from their audit of Leeds College of Music (LCoM). The LCoM Board of Directors had approved the audit report and financial statements at its meeting the previous day.

A discussion followed in relation to pension contribution rates that were expected to increase following the valuation in March 2017. KPMG advised that increases of 1-2% were to be expected and the Chief Financial Officer confirmed that the college had budgeted for an increase with effect from April 2017.

RESOLVED (A 28/16):

To agree KPMG's audit highlights memorandum and management letter for presentation to the Board.

7b. Draft Report and Financial Statements for year ended 31 July 2016

The committee considered the college's draft financial statements for the year ended 31 July 2016, including the operating and financial review, statement of corporate governance

and internal control, statement of regularity, propriety and compliance and the statement of responsibilities of the members of the Corporation.

The college had generated a deficit of £1,961k during the 12 months ending 31 July 2016 compared to a 2014/15 surplus of £3,308k. The college had accumulated reserves of £36,425k and cash balances of £5,456k. Committee members asked that the financial results commentary provided at page 5 of the financial statements be updated to reflect this position. Committee members also identified a number of additional changes that were of a presentational nature; the Chief Financial Officer undertook to incorporate these changes prior to the financial statements being presented to the Board for approval.

In response to a query from the committee, KPMG confirmed that the operating and financial review contained within the financial statements was fit for purpose and fully met all requirements.

RESOLVED (A 29/16):

That the Board be recommended to approve the college's financial statements for the year ended 31 July 2016, subject to the financial results commentary being updated and other presentational changes requested by the committee.

7c. Draft Letter of Representation to External Auditors for year ended 31 July 2016

KPMG presented their letter of representation for the year ended 31 July 2016, the content of which was standard in nature but contained one specific representation for Leeds City College – this related to ongoing discussions with the Skills Funding Agency (SFA) regarding the potential clawback of learner support funds from prior years.

RESOLVED (A 30/16):

That the letter of representation to KPMG for the year ended 31 July 2016 be recommended for approval by the Board.

(Clare Partridge, KPMG, left the meeting at this point)

8. Students' Union (SU) Annual Accounts 2013/14 and 2014/15

The Chief Financial Officer introduced a paper summarising the year end accounts position for the Leeds City College SU for the years ending 31 July 2014 and 31 July 2015. The union had made a surplus of £4,791 in the year to 31 July 2014. It was reported that during that year (2013/14) the college block grant had supported all sabbatical post holders within the union. In the year to 31 July 2015 the union made a loss of £7,409. The deterioration in financial position year on year was attributed to an increase in sabbatical posts in the 2014/15 financial year.

It was noted that some difficulties had been encountered in the preparation of the annual accounts. The committee considered a summary of the outcome of the review of the accounts, the recommendations made to overcome the difficulties, and the union's response. The Chief Financial Officer advised that the 2015/16 accounts were currently being prepared and would be presented at the next Audit Committee meeting.

Committee members queried the frequency of SU financial reporting and monitoring. The SU President advised that monthly reviews were carried out against the SU cost centre.

The SU President wished to place on record her thanks to college management and the Board for their continued support of the SU.

RESOLVED (A 31/16):

(a) To note the Students' Union (SU) Annual Accounts for the years ending 31 July 2014 and 31 July 2015.

- (b) That the SU Annual Accounts for the year ended 31 July 2016 be presented at the next meeting.

(Emily Chapman, SU President, left the meeting at this point)

9. Annual Reviews for financial year ended 31 July 2016

(a) White Rose Resourcing Ltd

The committee received a paper summarising the activity and performance of White Rose Resourcing Ltd, a wholly owned subsidiary of Leeds City College, for the year ending 31 July 2016. It was noted that White Rose Resourcing (WRR) Ltd had made a modest loss of £13k after its first year of operation; this was in line with expectations.

WRR Ltd was established with the purpose of providing agency workers to the college. The Chief Financial Officer reported that the transition to this model of operation had saved an estimated £150k in comparison to remaining with the traditional model for the supply of agency workers. It was acknowledged that the purpose of the model was the significant VAT saving rather than WRR making a profit.

(b) Leeds Apprenticeship Training Agency Ltd

The committee received a paper summarising the activity and performance of Leeds Apprenticeship Training Agency Ltd (LATA) for the year ending 31 July 2016. LATA became a wholly owned subsidiary of Leeds City College on 26 July 2016 following Leeds City Council's decision to withdraw in December 2015. The company had made a financial loss of £54k in the year ending 31 July 2016, due to insufficient volumes of apprentices to cover the costs of LATA's staff. The Chief Financial Officer advised that the employment of staff terminated in March 2016; no further losses were incurred. The company would seek to break even in 2016/17.

RESOLVED (A 32/16):

- (a) To note the activity and performance of White Rose Resourcing Ltd for the year ending 31 July 2016.
- (b) To note the activity and performance of Leeds Apprenticeship Training Agency Ltd for the year ending 31 July 2016.

INTERNAL AUDIT

5. Internal Audit Progress Report

RSM presented, for information, their internal audit progress report. Committee members welcomed the accompanying briefing on emerging issues in the further education sector.

RESOLVED (A 33/16):

To note the internal audit progress report.

6. Internal Audit Strategy 2016/17

RSM presented an updated internal audit strategy and internal audit plan for 2016/17. This had been updated to reflect feedback from members at the previous Audit Committee meeting. The overall level of resource and fees remained unchanged.

In response to a question from the committee, the Head of Finance (Leeds College of Music) confirmed that Leeds College of Music was adequately reflected in the internal audit plan.

RESOLVED (A 34/16)

That the internal audit strategy and internal audit plan for 2016/17 be recommended to the Board for approval.

RISK MANAGEMENT

10. Risk Registers 2016/17

The Deputy Principal Corporate Services presented the first quarter's risk registers for Leeds City College, LCC Commercial, Keighley College and Leeds College of Music. These divisional risk registers contained a mix of strategic and operational risks. A group strategic risk register was also presented. This had been prepared after scrutiny of the divisional risk registers and an assessment of the materiality of the impact of individual risks on the group. As a result, nine risks had been identified at group level, all of which were currently rated amber or red. The two red risks related to group finances (cash flow) and resourcing of the property strategy and committee members reviewed the actions taken/planned to mitigate these risks.

The committee went on to discuss its approach to risk management in light of the developing group structure. Arising from this discussion it was suggested that the sub-committees established to oversee the divisions of the group, for example the LCC Commercial Sub-Committee, be tasked with drilling down into the divisional risk registers on a quarterly basis. This would contribute to the overall effectiveness of the risk management process.

It was noted that the internal audit plan provided for a review of risk management in March 2017.

RESOLVED (A 35/16):

That the group strategic risk register 2016/17 be recommended to the Board for approval.

11. Emerging risks impacting on the internal audit plan (if any)

RSM confirmed that they had reviewed the divisional and group risk registers and were comfortable that the risks were reflected in the 2016/17 internal audit plan.

GOVERNANCE

12. Monitoring of Audit Recommendations

The committee considered a report on the progress made by management in implementing agreed audit recommendations. All but one of the identified actions was on schedule to be completed in accordance with agreed timescales. The one that was behind schedule related to ISO 9001. It was noted that the decision had been taken to lapse the accreditation and the LCC Commercial Sub-Committee would be presented with appropriate proposals of when the Division should reapply for the 2015 standard.

RESOLVED (A 36/16):

To note the progress made by management in implementing agreed audit recommendations as at the end of November 2016.

13. Draft Audit Committee Annual Report to the Board and Accounting Officer 2015/16

The committee considered a draft of its Annual Report to the Board and Accounting Officer for the year ended 31 July 2016, the purpose of which was to advise and provide an opinion on the adequacy and effectiveness of the college's audit arrangements, its framework of governance, risk management and control, and its processes for securing economy, efficiency and effectiveness.

A discussion took place around economy, efficiency and effectiveness and whether the college could do more to secure value for money. RSM confirmed that this would be built into their internal audit reviews throughout 2016/17.

With regard to governance, it was suggested that the annual report make reference to Board self assessment processes. The clerk undertook to add this to the final version of the report.

The committee was satisfied that progress continued to be made in the areas reviewed by the internal and external auditors. Its overall opinion was that the college had adequate and effective audit arrangements, framework of governance, risk management and control, and processes for securing economy, efficiency and effectiveness.

RESOLVED (A 37/16):

To approve the Audit Committee's Annual Report 2015/16 for presentation to the Board and Accounting Officer subject to the one addition requested by the committee as referenced above.

The meeting closed at 12noon

CLOSED SESSION WITH AUDITORS

At the end of the formal meeting the auditors were provided with an opportunity to meet with the committee in the absence of college management.

KPMG reported that their year end audit work had gone well; they had no further issues to raise with the committee.

A discussion took place regarding the timescales associated with the 2016/17 internal audit plan; the committee asked that RSM alert the chair to any slippages at the earliest opportunity.

Signed:.....(Chair) Date:.....