

AUDIT COMMITTEE ANNUAL REPORT 2014-15

1. Introduction

1.1. In accordance with the Skills Funding Agency's (SFA's) Joint Audit Code of Practice, this annual report of the Audit Committee is addressed to both the Governing Board and the Principal as the Accounting Officer for the College.

The purpose of the report is to advise on the effectiveness of the College's risk management, control and governance processes.

1.2. Period covered: 1 August 2014 to 31 July 2015.

1.3. Members of the Audit Committee during the period covered by the report:

Governors:

Independent Members:

David Rogers (Chair) – 3 out of 3 committee meetings attended.

Bridget Patmore (until December 2014)-1 out of 1 committee meeting attended.

Ann Harrison-3 out of 3 committee meetings attended.

Susan Spibey – 2 out of 3 committee meetings attended

Mike Thomas – 0 out of 2 committee meetings attended

Vicky Round (until May 2015) - 2 out of 2 committee meetings attended

Steve Gent (until December 2014) 1 out of 1 committee meeting attended.

External Co-optee:

Ian Dempsey, Chartered Accountant 1 out of 3 committee meetings attended.

Clerk to the Corporation:

Robin Newton-Syms, part-time Clerk, who was not a senior manager and had no significant financial responsibility.

1.4. Meetings of the Audit Committee were held on:

4th December 2014

31st March 2015

4th June 2015

1.5. The Terms of Reference of the Committee were revised in March 2015 to take account of the revisions to the Joint Audit Code of Practice and are attached as an Appendix. They were formally approved by the Governing Board in June 2015 (GB/15/06/116).

2. Providers of Audit Services for the period covered:

Internal Audit Service – Baker Tilly LLP

Financial Statements and Regularity Auditors - Wylie and Bisset LLP

3. Risk & Internal Control

3.1 Baker Tilly were reappointed as internal auditors in August 2012. The work undertaken during 2014-2015 was in accordance with the letter of engagement and Annual Internal Audit Plan.

3.2. The overall assurance that was given by the internal auditors in their annual report was as follows:

"Overall, in our opinion the College has adequate and effective governance, risk management and control processes to manage the achievement of its objectives. However, further improvements are required in some areas to help improve the College's overall risk management and control environment."

Governance

Adequate and effective governance arrangements are in place, however changes made during 2014/15 need to become further embedded during 2015/16. AMBER/GREEN' (reasonable) assurance opinion with one 'medium' priority and four 'low' priority recommendations.

Risk Management

Established risk management procedures are in place within the College, however further enhancements are required to the risk management framework in order to embed these procedures across the College. AMBER/RED

Control

Adequate and effective control arrangements are in place in some areas, however further improvements could be made to the College's internal controls in other areas. Three 'AMBER/RED' (some) assurance opinions, one 'AMBER/GREEN' (reasonable) assurance opinion, and two 'GREEN' (substantial) assurance opinions.

3.3 The internal auditors based their opinions for these areas as follows:

"Governance

To inform our governance opinion for 2014/15, we have taken into consideration the governance and oversight related elements of each of the assignments undertaken as part the annual Internal Audit Plan.

In addition to this, our governance opinion also reflects the outcome of our Governance Effectiveness and Assurances review, which resulted in an 'amber/green' (reasonable) assurance opinion. We made one 'medium' priority and four 'low' priority recommendations as part of this review.

Our governance opinion is also informed by our cumulative knowledge of the College's governance processes through coverage in previous years and is also in recognition of the outcomes of March 2015 Ofsted review, which stated that 'significant changes to governance, leadership and management, including the appointment of a new Principal in August 2014 and the creation of a new senior management team, are beginning to have an impact on tackling the College's poor performance in recent years'.

We are aware that actions have been taken by the College to address the issues identified by Ofsted and governance procedures have been improved as a result, with further embedding planned for 2015/16.

Risk Management

Our opinion on risk management is informed by the assessment of the risk mitigation procedures undertaken in the areas covered by the risk-based reviews completed as part of the 2014/15 Internal Audit Plan. These include the Health and Safety – Framework Review, the Capital Projects Management Review and the Data Protection - Framework Review. All three of these reviews resulted in 'amber/red' (some) assurance opinions.

In addition, our risk management opinion is also informed by the discussions we have had with management, and through our cumulative knowledge of the College's risk management and assurance systems and processes. Whilst we recognise that established risk management procedures are in place within the College, further enhancements are required to the risk management framework in order to embed these procedures across the organisation.

Control

The results of all of our internal audit assignment reviews for 2014/15 were used to inform our control opinion. Overall, our work resulted in three 'amber/red' (some) assurance opinions, one 'amber/green' (reasonable) assurance opinion, and two 'green' (substantial) assurance opinions.

In addition to this, as part of our Follow Up work we concluded that poor progress had been made in implementing previous internal audit recommendations in two discrete areas of activity (Apprenticeships and Subcontracting), although additional follow up work in these areas identified that further progress was made during the year towards the strengthening of controls in these areas.

Our assignment reviews highlighted that whilst there are adequate and effective controls in place in some of the College's processes, improvements are required to the control frameworks in other areas."

The Audit Committee has reflected on the outcomes of these reports and will be looking for an improvement in controls to lead to a reduction in the total number of recommendations in future. They noted that all the recommendations made during the year were accepted by management.

The internal auditors further reported on the progress made with previous recommendations as follows

"Our follow up of the 16 'high' and 'medium' priority recommendations from previous years showed that the College had demonstrated good progress in implementing actions agreed to address internal audit recommendations made within all areas except the Subcontracting – Contractual Oversight Controls and the Student Records – Apprenticeships Overview reports. In both of these areas, given the severity of the overall findings and level of inherent risk, we concluded that poor progress had been made (our follow up review was conducted on 6 March 2015).

We found that of the 16 recommendations we followed up,

- 11 recommendations (one 'high' priority and 10 'medium' priority) had been fully implemented,
- 2 recommendations (both 'medium' priority) were in the process of being implemented,
- 3 recommendations (one 'high' priority and two 'medium' priority) had not yet been actioned by management (as above, these related to Apprenticeships and subcontracting)"

Internal Auditors undertook follow up work in July 2015 in relation to the recommendations made within the following internal audit reviews:

- Student Records - Apprenticeships (06.13/14); and
- Data Protection – Framework Review (02.14/15).

Internal Auditors reviewed 14 recommendations in total as part of their follow up work in July 2015 and were provided with updated information in November 2015. They found that 11 recommendations were fully completed. The remaining three were in progress. They concluded that good progress had been made.

4. Financial Statements Audit

- 4.1. The Governing Board approves the financial statements on the advice of the Resources Committee.
- 4.2. The Corporation is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the College has applied the principles set out in the *UK Corporate Governance Code* as issued by the Financial Reporting Council in September 2014 and those of the Foundation Code of Governance for English Colleges which was adopted by the Corporation in 2012 (GB/12/11/25).

In the opinion of the Governing Board, the College complies with all the provisions of these Codes in so far as they apply to the Further Education Sector, and it has complied throughout the year ended 31 July 2015. It is the Governing Board's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Governing Board is provided with regular and timely information on the overall financial performance of the College, together with other information, such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. There have been nine scheduled Governing Board meetings and a strategic workshop for Governors held over the year ended 31st July 2015.

The Governing Board conducts its business through a number of Committees. Each Committee has terms of reference that have been approved by the Governing Board. The Committees are Search and Governance, Audit, Remuneration, Resources and Curriculum and Student Matters. Full minutes of all meetings, except those deemed confidential to the Governing Board, are available from the Clerk and published on the College web-site.

The Clerk maintains a register of financial and personal interests of the Governors. The register is available for inspection at the College.

All Governors are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk, who is responsible to the Board for ensuring compliance with all applicable procedures and regulations. The appointment, evaluation and removal of the Clerk are matters for the Governing Board as a whole.

Formal agendas, papers and reports are supplied to Governors in a timely manner, prior to Board meetings. Briefings are also provided on an ad-hoc basis.

The Governing Board has a strong and independent non-executive element and no individual or group dominates its decision-making process. The Governing Board considers that all of its non-executive members are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chair and Principal are separate.

Internal Control

The Governing Board is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Governing Board has delegated the day-to-day responsibility to the Principal, as Accounting Officer, for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives whilst safeguarding the public funds for which he is personally responsible, in accordance with the Financial Memorandum between the College and the LSC and its successor organisations. He is also responsible for reporting to the Governing Board any material weaknesses or breakdowns in internal control.

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on any ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place within the College for the year ended 31 July 2015 and up to the date of the approval of the annual report and financial statements.

Going Concern

After making appropriate enquiries, the Governing Board considers that the College has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

4.3. The financial statements auditors' Financial Management Report is presented to the Audit Committee on an annual basis.

The main purpose of the audit work of the Financial Statements Auditor is designed to consider whether:

- The financial statements of the College give a true and fair view, in accordance with UK Generally Accepted Accounting Practice ('UK GAAP'), of the state of affairs of the College as at 31 July 2015 and of its results for the year then ended;
- The financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 and with the Accounts Direction issued jointly by the Skills Funding Agency and the Education Funding Agency; and
- The expenditure disbursed and income received during the year ended 31 July 2015 has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The Auditor states:

"Audit Opinion-Financial statements

We are pleased to record that there are no qualifications in our audit opinion on the College's accounts for the period ended 31 July 2015, as in our opinion, the financial statements give a true and fair view of the College's financial position and the income and expenditure and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and in accordance with the requirements of the Further and Higher Education Act 1992 and directions made thereunder by the Skills Funding Agency and the Education Funding Agency. We are satisfied that funds received have been applied for their intended purpose.

Audit Opinion-Regularity

We are pleased to record that there are no qualifications in our regularity audit opinion for the period ended 31 July 2015. In accordance with the Joint Code of Audit Practice and the Regularity Audit Framework issued by the Skills Funding Agency (SFA) & Education Funding Agency (EFA) this work focuses on the regularity and propriety of the college's income and expenditure.

Members of the Corporation are responsible for ensuring that income and expenditure are applied for the purposes intended by Parliament and that the financial transactions conform to the authorities that govern them. In addition they are responsible for ensuring that funds from the SFA & EFA are used only in accordance with the Financial Memorandum and the SFA/EFA and any other conditions which may be prescribed from time to time. Our work on regularity considers the college's use of funds in accordance with relevant legislation, terms and conditions and the financial memorandum. We consider non recurrent grant funding, other SFA/EFA funding, the general activities of the college and propriety."

5. Risk Management

The Committee's consideration of the College's risk management strategy has included a continuous review of the Risk Register which was updated for each meeting of the Audit Committee. The Committee noted the specific actions since the previous meeting, the residual risks and new risks identified during the year.

The College is committed to following the principles of Risk Management in the day-to-day running of its operations. The College recognises that risk management is a key management tool in ensuring it meets its strategic aims. It will strive to ensure that the principles of risk management are embedded into all its activities.

College auditors continue to regard the College's Risk Management procedures as providing an adequate and effective level of assurance.

6. Other Matters

6.1. Fraud or irregularity – the annual report on "Occurrences of Alleged Fraud" revealed that no internal examples of proven fraud were experienced during the year.

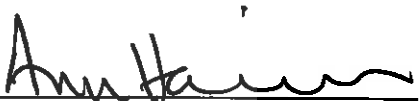
7. Conclusions and recommendations

Audit Committee's Opinion

After considering the annual reports from both the internal audit service and the financial statements auditor, it is the opinion of the Audit Committee that the College's established procedures are adequate and operating to meet management's requirements in terms of risk management, control and governance processes.

Therefore the Audit Committee are of the view that it has operated effectively and fulfilled its obligations as identified in its Terms of Reference. In reviewing its effectiveness the skills mix of the committee has been considered and it is noted that members have financial and business expertise. It is also noted that members have received updating training on JACOP and also on board assurance models. It is also of the opinion that the College's audit arrangements, the internal control systems, value for money policy and procedures, financial controls, framework of governance, risk management and control are adequate, operating effectively and its processes secure economy, efficiency and effectiveness and can be relied upon.

Finally the Committee considers, based upon the information and reports presented to it, set out above, that the College's systems are adequate to permit the Chair of the Governing Board to sign the Statement of Corporate Governance and Internal Control and the Statement of the Responsibilities of the Members of the Governing Board within the financial statements.



Ann Harrison
Acting Chair of the Audit Committee

9/12 2015
Date

APPENDIX

Audit Committee Terms of Reference

Lorna Lloyd-Williams, Clerk

December 2015

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Constitution

The Corporation hereby resolves to adopt the following terms of reference for the Audit Committee which is established in accordance with the Articles of Government (Clause 6). The Committee operates in accordance with the Joint Audit Code of Practice (JACOP). It does not have an executive role.

1. Objective

1.1. The Committee is established to assess and provide the Governing Board with an opinion on the adequacy and effectiveness of the College's audit arrangements, framework of governance, risk management and control, and processes for the effective and efficient use of resources, the solvency of the institution and the safeguarding of its assets.

2. Membership and Quoracy

2.1. The Committee shall be appointed by the Governing Board and consist of:-

- A minimum of 3 members, a majority of whom must be members of the Governing Board and must not include the Chair of the Governing Board and the Principal or members of the Resources Committee.
- The Audit Committee must ensure that it maintains its independence when considering the appointment of members and to support this, membership should also include at least one external co-optee who should be treated as having equivalent status to full members of the Governing Board.
- The Committee may include members of staff of the College other than those in senior posts.
- Members of the Committee collectively should have a range of skills and recent experience relevant to risk management, governance, finance, audit and assurance.

2.2. A quorum shall be 2 members of whom at least 1 shall be a full member of the Governing Board.

2.3. The Chair and Vice Chair of the Committee shall be appointed by the Governing Board.

3. Attendance at Meetings

3.1. The Committee shall have the right, whenever it is satisfied that it is appropriate to do so, to go into confidential session and exclude any, or all, participants and observers, except the Clerk to the Committee. When the Committee exercises this right, the rules relating to quoracy shall be observed.

3.2. The internal auditor shall be invited to attend all meetings, as shall the financial statements auditor and regularity auditor, where business relevant to them is being discussed. Senior management may be required to attend meetings particularly where their area of responsibility is under discussion.

3.3. In order to maximise the independence of the Committee, the Clerk to the Governing Board must be the Clerk to the Committee.

4. Frequency of Meetings

4.1. Meetings shall be held not less than three times a year. The auditors may request a meeting if they consider that one is necessary.

5. Authority

5.1. The advice provided by the Committee to the Governing Board is primarily formed through a consideration of the work of the College's internal audit service (IAS), its financial statements auditor and regularity auditor.

5.2. The Committee has the right of access to obtain all the information it considers necessary from members of the staff and Governors, and to consult the IAS, financial statements auditor and regularity auditor directly. There shall be an item on the agenda of every meeting of the Committee – "Consultation with Auditors – before inviting officers to attend".

5.3. The Committee is authorised by the Governing Board to obtain outside legal or other independent professional advice up to a limit of £10,000 per annum and to secure the attendance of outsiders with the relevant experience and expertise if it considers this necessary. Further expenditure would require the approval of the Governing Board.

6. Duties

6.1. In accordance with the JACOP, the duties of the Committee shall be to :-

- Assess and provide the Governing Board with an opinion on the adequacy and effectiveness of the College's audit arrangements, framework of governance, risk management and control, and processes for the effective and efficient use of resources, the solvency of the institution and the safeguarding of its assets.
- Advise the Governing Board on the appointment, reappointment, dismissal and remuneration of the financial statements auditor, regularity auditor and other assurance providers, including the IAS, and establish that all such assurance providers adhere to relevant professional standards.
- Advise the Governing Board on the scope and objectives of the work of the financial statements auditor and the regularity auditor as well as the audit strategy and annual internal audit plans for the IAS.
- Advise the Governing Board on internal audit assignment reports and annual reports and on control issues included in the management letters of the financial statements auditor (including their work on regularity), and management's responses to these.
- Monitor, within an agreed timescale, the implementation of agreed recommendations relating to internal audit assignment reports, the regularity auditor's management letter and spot-check reports (where appropriate) and the financial statements auditor's management letter.
- Consider and advise the Governing Board on relevant reports by the National Audit Office, the Skills Funding Agency (SFA) and other funding bodies, and, where appropriate, management's response to these.
- Produce an Annual Report for the Governing Board which summarises the Committee's activities relating to the financial year under review, including any significant issues arising up to the date of preparation of the report, and any significant matters of internal control included in the management letters and reports from auditors or other

assurance providers. It must include the Committee's view of its own effectiveness and how it has fulfilled its terms of reference. The report must include the Audit Committee's 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. The Annual Report must be submitted to the Governing Board before the Statement of Corporate Governance and Internal Control in the accounts is signed. A copy of the Audit Committee's Annual Report must be submitted to the relevant funding body with the annual accounts.

- Oversee the College's policies on fraud and irregularity and whistleblowing, and ensure the proper, proportionate and independent investigation of all allegations and instances of fraud and irregularity; that investigation outcomes are reported to the Audit Committee; that the external auditors and internal auditors have been informed, and that appropriate follow-up action has been planned / actioned, and that all significant cases of fraud or suspected fraud or irregularity are reported to the Chief Executive of the appropriate funding body.
- Inform the Governing Board of any additional services undertaken by the IAS, the financial statements auditors and the regularity auditor and explain how independence and objectivity were safeguarded.
- Establish, in conjunction with College management, relevant annual performance measures and indicators, and to monitor the effectiveness of the IAS and financial statements auditor through these measures and indicators and to decide, based on this review, whether a competition for provision of audit services is appropriate;

6.2 Annual Cycle of Audit Committee Business

- to review the Annual Business Cycle annually and consider other items of business for inclusion.

7. Reporting Procedures

- 7.1. The Clerk shall circulate minutes of the meetings of the Committee to all members of the Governing Board.
- 7.2. The Committee shall provide an Annual Report for the Governing Board and the Principal as Accounting Officer in accordance with 6.1.

These terms of reference were considered by the Audit Committee on 31st March 2015 and were approved by the Governing Board on 30th June 2015.