

# QUEEN ELIZABETH SIXTH FORM COLLEGE

## Minutes of the Meeting of the Audit Committee held on Thursday 10<sup>th</sup> November 2016

Present: Mr A Teague, Chair  
Mr P Davison  
Mr A Collishaw, Co-Opted Governor

In attendance: Mr Patrick Newman, KPMG  
Susan McNair, PWC  
Emily Hudson, PWC  
Mr T Fisher, Principal  
Mr S Hargrove, Chief Financial Officer  
Dr S Hunnisett, Vice Principal  
Mr S Dowson, Clerk

Apologies: Mr I Clyde  
Mr S Regan

10/16 Declarations of Interest

There were no declarations of interest.

11/16 Minutes of the previous meeting

The minutes of the meeting held on Thursday 26<sup>th</sup> May 2016 were **agreed** and **approved** for signing by the Chairman.

12/16 Matters arising

There were no matters arising.

13/16 Agenda item 5, Internal Auditors Report

Susan McNair and Emily Hudson of PWC introduced the Internal Auditors Report which had been circulated in advance with the papers for the meeting and a report, 'Communications and Marketing – Social Media' which was tabled at the meeting.

During the period January 2016 to June 2016 The Internal Audit had carried out the third standard internal audit review for 2015-16 which had looked at the effectiveness of the governance processes followed by Committees and the Corporation. The internal audit had reviewed key governance documentation and observed the June Finance and Resources Committee meeting and the September Board meeting.

The report highlighted the following areas of good practice.

- There was a high level of Governors attendance at both meetings observed and a review of meeting minutes suggested that attendance at meetings is consistently good across the College's governing Committees.
- A good level of challenge from some Committee members at both observed meetings
- Agenda papers were circulated well in advance allowing Governors sufficient time to review and scrutinise the contents
- The roles and responsibilities of each Committee and the Corporation are defined within the relevant Terms of Reference which are reviewed regularly to ensure they remain appropriate.
- The overall rating of the report was **low** with two low rated findings and two advisory findings.

The two low rated findings are:

1. The College do not currently allot time allocations to meeting agenda items to ensure that meetings are appropriately structured and that agenda items receive the required level of attention and scrutiny.
2. Items on the agenda coversheet are not consistently marked correctly as either for acceptance or approval from Committee members.

The Committee accepted the need for good time management in meetings but challenged the effectiveness of simply prescribing time to agenda items in advance. The Committee's view was that time management is a matter for the Chairman and it is important to be able to maintain flexibility during the course of a meeting.

After some further discussion the Committee **accepted** the proposed actions for the **Low Rated risks** in the Internal Auditors Report.

Susan McNair and Emily Hudson explained that the second report, 'Communications and Marketing – Social Media' was not part of the Internal Audit Plan for 2015-16 but had been commissioned during the year to look closely at the rapid development of Social Media and the opportunities and threats this poses to QE.

The report aimed to provide support to the design and operating effectiveness of controls in place around communications and marketing by focusing on the use of social media including a review of current policies, guidelines and controls and customer insight through a 'sentiment analysis' by analysing the number of positive, neutral and negative 'tweets' in QE's Twitter account.

Mr Fisher emphasised that there was a lot of power in social media and it was important that QE utilised it correctly and to best effect. The College's use of social media had developed piecemeal and the report had provided a lot of useful guidance and comments to help develop policy and to plan effectively for the future.

In reply to questions from Governors, Mr Fisher and Mr Hargrove explained that Mr Job had overall responsibility for this area of communications and marketing and that Mr Raper, a member of the Curriculum Support team, had hands on involvement day to day. Formal policy can now be developed with the benefit of the report and help and advice from the students. Some areas of the College, for example sports teams, are already making good use of social media and this could be expanded to other areas of the College as well.

Mr Hargrove explained that he had included the recommendations of the Communications and Marketing – Social Media report in the, 'Outstanding Audit Recommendations 2016' report to ensure they were implemented.

The Governors **accepted** the Communications and Marketing – Social Media report.

The Committee considered the Follow up work conducted in section 4 of the Internal Audit Report which included one medium and one low recommended actions which had not yet been implemented.

1. Mr Hargrove explained that a new purchase requisitioning module to replace the current system of spreadsheets will be incorporated into the College's accounting software during the autumn term. The new software also includes information and controls for budget holders.
2. The original action to create a log of critical spreadsheets had proved to be unworkable. A new file storage policy has been devised. Critical spreadsheets will be identified, stored and managed within a designated and protected area of the current electronic file storage system.

Susan McNair and Emily Hudson congratulated Mr Hargrove and all staff on achieving a very good 'clean' internal audit report.

The Committee **accepted** the Internal Audit Annual Report 2015/2016

The Committee **accepted** the Internal Audit Report 2015/2016 - Governance

#### 14/16 Agenda item 6. Annual Internal Audit plan 2016/2017

The Committee considered the proposals for the 2016/2017 Internal Audit, which included:

- A workshop to develop **IT Strategy**

- A review of key controls for **IT security** and data management
- A review of **Risk Management** working practices
- A review of QE's approach to **Partnerships** with local schools and colleges

The Committee **approved** the Annual Internal Audit plan for 2016/2017

15/16 Agenda item 7. Financial Statements and Regulatory Audit Management Reports 2015-16

Mr Newman explained that the audit had gone extremely well. There were no new performance improvement observations for 2015-2016 and no performance observations to note from prior years.

The Committee congratulated and thanked Mr Hargrove for such a smooth audit. The Committee confirmed that they had no questions on the Executive Summary. The Committee **accepted** the KPMG Audit highlights memorandum and management letter Year ended 31 July 2016.

16/16 Agenda item 8. Annual Report and Financial Statements for Year ended 31 July 2016

Mr Hargrove explained that the Annual Report and Financial Statements had previously been considered in detail by the Finance and Resources Committee at their meeting on 31<sup>st</sup> October and had confirmed that the figures coincided with the Management Accounts.

Mr Newman explained that due to the transition to Financial Reporting Standard FRS 102 and the 2015 FE HE SORP, a number of accounting policies had changed to comply with the new standards. The change in the recognition of short term employment benefits (accrued holiday pay) and the change in the recognition of defined benefit pension plan finance costs had affected the College's financial position and financial performance which were summarised on page 47 of the report.

Mr Hargrove warned the Committee of the possible increase in employer contributions payable to the support staff defined benefit pension scheme following the completion of the three year review in March 2017. This could include not only increased contributions but also lump sum payments. Mr Hargrove said that Durham County Council had already indicated that they were planning to increase contributions into the pension scheme by about 20%. There could be increases in contributions to the Teachers' Pension Scheme in the future too.

The risk of future increases in pension contributions should be included in the College Risk Matrix under changes in Government Policy.

In reply to a question from Mr Davison, Mr Fisher reassured Governors that there was currently no risk of the Education Funding Agency asking for some of the College's cash surplus to be returned but the risk might be amplified if the College became an academy.

Mr Collishaw confirmed that Academies were not permitted to carry forward a cash surplus of more than 12% of their annual turnover.

Mr Fisher explained that currently the biggest risk to the College was the demographic dip and the associated fall in income. The College wished to pause on any major capital investment until the demographic dip has passed. This policy was also prudent in view of the uncertainty caused by the Area Review. The cash could be ring fenced by refining the reserves policy but the Finance and Resources Committee had considered drafting a Reserves Policy but had decided that it was more important to maintain flexibility in light of the current uncertainties.

Mr Hargrove speculated that large cash reserves may have an impact on future grant applications, for example from the Capital Improvement Fund, but there was no evidence that recent applications had been affected.

The Committee **approved** the Annual Report and Financial Statements for Year ended 31 July 2016

17/16 Agenda item 9. Management Representation Letter

The Committee **approved** the Management Representation letter and **agreed to recommend** it to the Board.

In answer to a question from Mr Collishaw Mr Hargrove confirmed that there had not been any related party transactions.

18/16 Agenda item 10. Financial Management and Control Evaluation

The Committee congratulated Mr Hargrove on achieving an overall self-assessment grade for the college's financial management and control of Outstanding for a further year.

The Committee **accepted** the Financial Management and Control Evaluation report.

19/16 Agenda item 11. Value for money strategy and report 2015-16

The Committee considered the Value for money strategy and report. Mr Hargrove highlighted some of the value for money activity in 2015/16 which were listed on page 1 and 2 of the report and suggested further actions on page 2. In particular Mr Hargrove highlighted the excellent work that had been done by Dr Hunnisett to manage and control teaching costs.

Governors also considered the Norvic Benchmarking data which had been included in the report this year.

Governors discussed the difficulty of expressing the concept of value for money on paper. For example, it is easy to demonstrate the efficient management of a building project but more difficult to measure the return on investment in teaching staff. Governors agreed that it was nevertheless important to have a process in place.

The Committee **approved** the Value for money strategy and report.

20/16 Agenda item 12. Annual Report on the work of the Audit Committee

The Governors **accepted** the Annual Report on the work of the Audit Committee with the addition of a paragraph about fraud and whistleblowing as follows:

*The Audit Committee, having made enquires of College Management, is not aware of any instances of fraud or whistleblowing that have occurred during and subsequent to the 2015/16 financial year.*

Mr Fisher confirmed that he was not aware of any incidents of fraud or whistleblowing over the past year.

21/16 Agenda item 13. Risk Management Policy, Strategy and Risk Register.

The Committee **approved** the Risk Management Policy for 2016-17

The Committee considered the Risk Management Report including the most significant risks highlighted in section 2.4, the activities during the year - including the work of the Internal Audit - and the Action Plan for 2016/17. The Committee **approved** The Risk Management Strategy for 2016/17.

The Chairman said he was very pleased to see that the Risk Register had been reduced to 8 major headings following the removal of risks that had passed, had been mitigated or were no longer current.

Mr Hargrove confirmed that the one of the largest risks was identified as the Demographic Dip but increased student numbers this year, the first year of the dip, had proved that the measures taken had mitigated any potential impact.

In answer to a **challenge** from Mr Teague about the wisdom of reducing the lesson observation team Mr Fisher explained that the original thoughts behind broadening the team, as recommended by Ofsted, was to share best practice as widely as possible. However this had created greater variability across a large observation team. The focus now was to ensure lesson observations are as accurate and consistent as possible.

The Committee **accepted** the Risk Register.

22/16 Agenda item 14. Progress on Outstanding Audit Recommendations.

The Committee were satisfied that progress on outstanding audit recommendations was ongoing.

The Committee **accepted** the progress on outstanding audit recommendations report.

23/16 Agenda item 15. Reappointment of Auditors

It had previously been agreed at the November Audit Committee meeting that the Internal and External Audit would be renewed for a further year. Minute 08/16.

24/16 Agenda item 16. Terms of Reference and Key Performance Indicators.

The Committee **approved** the Terms of Reference and Key Performance Indicators for 2016/2017

25/16 Agenda item 17. Withdrawal of the College Management Team

Following the withdrawal of the College Management Team both KPMG and PWC confirmed that they had nothing they wished to raise with Governors. Both companies reported an open, helpful and cooperative attitude to the Audit from the College but not without a bit of healthy 'audit tension' at times.

Both Audit companies wished to thank all the QE staff involved and in particular PWC wished to thank Nikki Vaughan for her helpfulness, her outstanding efficiency and her comprehensive knowledge of College Governance.

26/16 Date of next meeting

Thursday 5<sup>th</sup> June 2017