

LINCOLN COLLEGE

CONFIDENTIAL

AUDIT COMMITTEE MINUTES

**TUESDAY 15 DECEMBER 2015 1400HRS IN THE EXECUTIVE MEETING ROOM,
LINCOLN COLLEGE**

Present	Nick Cudmore (Chair) Mark Platts	Peter Horner	Nick Lyons
In Attendance	Natalie Hughes (PA to COO) Lorraine Tomlinson- Hall (Chief Operating Officer)	Rachel Lewis (Group Financial Controller) Scott Winter (ICCA)	Richard Lewis (Baker Tilly)
Apologies	Dean Graham		

09/15 APOLOGIES FOR ABSENCE

Apologies were received from Dean Graham.

Lorraine Tomlinson-Hall had advised of a late arrival.

10/15 ELIGIBILITY, QUORUM AND DECLARATIONS OF INTEREST

It was reported by the Clerk that notice of the meeting had been given and that a quorum was present. Accordingly, the meeting was declared open. There were no declarations made.

11/15 MINUTES OF MEETING HELD ON 4 NOVEMBER 2015

The minutes of the meeting held on 4 November 2015 were reviewed by the meeting.

The Committee approved the minutes of 4 November 2015 as a true record and the Chair signed the minutes.

12/15 MATTERS ARISING AND NOTIFICATION OF URGENT BUSINESS

Rachel Lewis circulated the Financial Health Assessment Criteria to the Committee.

4Risk Management update will not be provided at the meeting, the Chair asked for this to be carried forward to the next Audit Committee Meeting on the 8th March 2016, the Chair went on to reiterate that risk is a big part of the agenda so it is imperative that it is discussed as a priority at the next Audit Committee.

ACTION: Clerk to add 4Risk & Risk Management update as a matter of priority to the next Audit Committee agenda.

The Chair requested that the dates for the Risk Management Meeting going forward are circulated to Audit Committee Members.

ACTION: Clerk to circulate future dates of the Risk Management Meetings.

The Chair requested that further background information in relation to KSA is to be added to the agenda of the next meeting.

ACTION: Clerk to add KSA update to the next Audit Committee Agenda.

13/15 INTERNAL AUDIT REPORTS

Financial Planning

Scott Winter presented the Financial Planning Report to the Committee and drew the Committee's attention to page one of the report and Lincoln College Financial stability in terms of development for the College's financial health.

COO joined the meeting at 2.15pm.

Scott Winter summarised the findings under the executive summary on page 3 of the report:

- Point one details a recommendation that the College undertakes 'Scenario Planning' and 'Sensitivity analysis' when developing the financial forecast for 2016/17.
- Point two details a recommendation that the College develops a range of performance indicators for inclusion in the monthly management accounts which show the current month and forecast year-end outturn positions against Covenants attached to the loan. Peter Horner asked whether Bank Covenant could be worked out by a simple column on a spreadsheet. Rachel Lewis confirmed this was the case. Richard Lewis went on to explain that the results of breaking down the Bank Covenants should not be a shock to the College. Richard Lewis stated further that that the information received today is about the College individually not the College Group.
- Point three details a recommendation that the College develops a range of non-financial monitoring reports/KPIs focussed on the three pillars of curriculum efficiency; group size, programme size and teaching staff utilisation. Rachel Lewis informed the Committee that a piece of work is currently being undertaken in this area, Scott Winter continued by stating that this piece of work will rely upon linkages between different departments within the College.

Mark Platts asked whether all recommendations from Internal Audit Reports were recorded and monitored. The COO stated these are logged through the 4Risk software, and will be populated through the 4risk software by John Duff.

ACTION: John Duff to ensure 4Risk software is populated with audit report recommendations.

China

Scott Winter presented the Reporting and Assurance Report over Operations in China to the Committee.

Scott explained to the Committee that the main points of note from this audit were as follows:

- Terms and Conditions within the agreement between the College and SCAT
- Executive and Corporation Reporting Arrangements
- Risk Management – evidencing China operations on the 4Risk Register

Full detail on these points can be found from point 7 of the report.

Scott Winter stated that there may be some timing issues in terms of these reports as the College have already acted upon some recommendations prior to the writing of a management response.

It was raised that a definitive version of agreement between the College and SCAT needs to be obtained. Rachel Lewis provided assurance that there is only one definitive version, which has been signed, and all previous versions are to be destroyed.

The COO informed the group that the College has set up the International Committee, where KSA and SCAT will be reported on in detail. The Business Development work streams of the College Group are also covered and reported on within this Committee including the fully devolved budget. The Chair stated that, from the perspective of the Audit Committee, it would be of great comfort for the International Committee to include Board Members, the COO confirmed that this is the case.

The COO questioned the report rating system and queried how a rating of 'Reasonable' was created from 2 ratings of 'Adequate'. Scott Winter clarified that this is based upon the operating system that is used by ICCA. Members drew attention to the Appendices of these reports which outlines the reasoning behind assurance ratings. Richard Lewis questioned whether it would be of benefit to create a briefing paper purely to clarify reasoning behind assurance ratings. The Committee were in agreement that this would be beneficial.

Action: Briefing paper to be created outlining reasoning behind assurance ratings within ICCA.

Peter Horner drew the Committee's attention towards the difference in front covers between reports. Rachel Lewis explained that this was due to the systems used to pull reports and the timing that these reports were produced.

Mark Platt asked for clarification on the definitions of adequate ratings etc. Scott Winter explained that this is difficult as the definition is dependent on how many recommendations there are within the report and can be subjective/flexible.

Follow-up

Scott Winter presented the Follow-up of Previous Internal Audit Recommendations Report to the Committee and explained to attendees that this report is based on the follow up of previous audit recommendations to ensure that management have taken into account and actioned previous recommendations.

Scott Winter summarised some of the details from the Executive summary which can be found on page 3; the most important point of note is that 94% (15 out of 16) of recommendations had been followed up, the remaining 1 recommendation has been partially completed. This point was in relation to Financial Controls which are detailed fully in page 6 of the report. Following this the Chair queried the amount of cash that is handled within the College campus. Rachel Lewis explained to the Committee that this is not a large amount and would be in the region of a maximum of £1000-£5000 cash at any one time in varying different areas of the College, for example petty cash floats within Deans, The Salon and Finance Department. Rachel Lewis went on to assure the group that cash payments are limited within the College and is therefore low risk.

Annual Internal Audit Report 2014/15

Scott Winter presented the Annual Internal Audit Report 2014/15 to the Committee and explained that this report had a focus on the Joint Audit Code of Practice which is to be discussed at a later part within the agenda. It was explained that the Audit Committee is now responsible for providing the College Corporation with the required assurances in terms of Audits, not the Auditors individually.

Page 2 in the report details other sources where assurance can be gained and ties into the Board Assurance Framework. Scott Winter detailed the following areas of note:

- Page 3 reports on the Internal Audit Opinion
- Page 4 reports on the number of operational assurances.
- Page 5 summarises work undertaken throughout the year
- Page 6 summarises key findings from work undertaken throughout the year.

Scott Winter explained to the Committee that in relation to Key Performance Indicators (KPIs) it is for the Audit Committee to assess auditors, not for the auditors to assess themselves.

The COO questioned the recommendations received and the RAG rating that was used, Scott Winter pointed the Committee in the direction of Appendix which explains the rating system thoroughly.

Richard Lewis drew the Committees attention to page 3 of the report and the Risk Management section which has been lifted into The Annual Report of the Audit Committee, which is received by the SFA, and asked whether it would be appropriate to include more information regarding the Risk Management System in light of the setbacks which have become apparent since opting for the use of the 4Risk System as the SFA may question the College's Risk Management procedures. The Committee were in agreement that it would be of benefit to look into this further.

Progress Report 2015/16

Scott Winter presented the Internal Audit Progress Report & Sector Update to the Committee members and summarised the information found within the report. Scott Winter went on to draw the Committee's attention to Page 7 of the report and the 'Outlying Risks For The Sector'; these are typically around Area Reviews.

14/15 JOINT AUDIT CODE OF PRACTICE (JACOP)

Rachel Lewis informed the Committee that the purpose of this paper is to make members aware of the responsibilities of Audit Committee and the Organisation as a whole. Rachel Lewis queried with Richard Lewis whether a verbal summary of the JACOP was presented at the last Audit Committee.

Richard Lewis gave a summary of the JACOP, particularly bringing the Committee's attention to Page 11, 12 & 13 where responsibilities of the Audit Committee are outlined.

Richard Lewis also brought to the Committee's attention, detail within page 15, paragraph 48, which outlines points of consideration for College Governors and Management relating to College expenditure. From this Richard Lewis explained that the education sector has the freedom to invest if points in this section are positively taken into consideration. Richard Lewis then went on to explain that other Educational establishments are looking in alternative forms of income also but this is still a relatively 'grey area'.

Mark Platts questioned whether the College was in possession of a 'Budget Control Manual' or similar, Rachel Lewis confirmed that there is a Financial Regulations policy available on the College's IT drives which includes sections relating procurement, tendering, and expenditure etc. The COO confirmed with the Committee that budget holders do in fact sign the budget to declare that they understand what is outlined within and the controls and measures required, the COO went onto explain that the Finance Committee have recently reviewed the Financial Regulations Document which will be circulated in due course once finalised.

Action: Rachel Lewis to clarify when summary of changes will be available

Richard Lewis advised of the potential benefit for the Audit Committee cross check the Terms of Reference and JACOP for consistency.

15/15 SELF-ASSESSMENT OF COMPLIANCE, REGULARITY & PROPRIETY

Rachel Lewis explained to the Committee that the template for the Self-Assessment Of Compliance, Regularity & Propriety can be found as an appendix within JACOP report.

Rachel Lewis informed The Committee that the College has self-assessed each of the requirements and has provided a management response to each. The appropriateness of responses has been reviewed by Richard Lewis and his team and will be signed off at the Board of Corporation later today by the CEO and Chair of the Board of Corporation. Richard Lewis added that this is a requirement of the JACOP and that this forms the start of the Self-Regulatory Audit. Richard Lewis noted that that the paper has some good responses noted, particularly in relation to finances.

Peter Horner drew attention to question at end of page two 'Is it satisfied in monitoring the financial performance of any non-core activities that they are not being materially subsidised from public funding?' The Committee confirmed that if finance for non-core activities has not come from public funding this is not an issue, however if Public money has been or is being used to fund non-core activities, this would be an issue, especially if the finances were not recoverable.

The Chair shared his satisfaction with this report.

16/15 FE COMMISSIONERS REPORT COMPLIANCE

Scott Winter gave background on the purpose of the circulation for this report. The paper in question is a collated version of a response in relation to all the risk areas. The COO stated that it was of a significant benefit for her to be involved in the completion of this report. The Committee noted Point 4 'Staff Costs are in excess of 65% of turnover' it was stated that action often cannot be taken quickly enough to impact within the reporting period. 15/16 is now 60%.

Mark Platts asked whether this report would lead the College to re-visit their Strategic Plan. In response to this, the Chair explained that this is often done via the Financial Report. Further to this the COO explained that sometimes 'income' may not be monetary in form but could be in the form of dividends etc.

17/15 ANNUAL FINANCIAL STATEMENTS 14/15

Richard Lewis presented this paper to the Committee and gave a summary of the information within, including key points and key risks. Page 19 gives conclusions around governance and internal control and two important statements which the Board of Corporation and Audit Committee will need to sign off.

Discussion ensued and the Chair stated, on the behalf of the Committee, that there is a feeling of vulnerability due to the lack of Risk Management information provided from the 4Risk system. The Chair went on to clarify that risk assurances had been sought from the Senior Management Team and questioned whether this was adequate enough for Committee sign off. It was agreed that this was adequate. It was asked whether the Senior Management Team had failed to understand the full scope of populating the 4Risk system. The COO stated that the information held, previous to the new system being implemented, was not robust enough to enable straight forward population of data into the 4Risk system, therefore the scope of the project was larger than first anticipated. The COO continued to state that the previous reporting procedure in terms of risk had left the Committee vulnerable. Rachel Lewis added that there is a requirement for the data to be accurate and informative, adding to the scope of the project.

Peter Horner asked for clarification on the use of 'Risk Champions' within the College; The COO confirmed that Risk Champions are in place and may not necessarily have to attend risk meetings in the future as the 4Risk system will provide the required information.

The COO informed the Committee that staff members have been given a deadline of 14th January to populate the 4Risk system and this information will be circulated to members of the Audit Committee upon completion.

The Chair stated that, with assurance from management that the Committee for the statements found on Page 15 of the report to be signed off.

Action: Risk Management information to be circulated to Audit Committee when available.

Richard Lewis continued to summarise the points of note within the report and discussion was had around budget and the reduction in deficit, the COO stated that the College are still in deficit but the year on year reduction from £1.4M deficit to £700K deficit, is a positive and should be viewed as a good news story alongside declining income. It was noted that there is a lot of debt currently that is to be repaid by KSA but the College is still only in year 1 of 5.

The COO informed the Committee of the CEO's recent trip to KSA. It was explained that a recent separation of financial accounts and review of the KSA colleges identified that the colleges in Al Alflaj weren't financially viable due to this two Al Alflaj colleges are to be closed. An extensive piece of work will be conducted in January to achieve this. The Chair questioned whether there would be any foreseeable cost in the closing of the colleges in Al Alflaj, there is no cost predicted at present.

The COO informed the Committee of the approaching SFA reconciliation which is accounted for.

Richard Lewis tabled, presented and summarised the External Audit Final Audit Findings Report to the Committee. It was stated that the College's Investment in KSA operations are not impaired and there is a belief that this will reap dividends in the future. Richard Lewis went on to state that he believes the College is a going concern.

18/15 ANNUAL REPORT OF THE AUDIT COMMITTEE

Richard Lewis presented the Annual Report of the Audit Committee report to the Committee alongside the COO. It was clarified that the Risk Management section within this report will be amended, as discussed previously in the agenda; this amendment is to include a summary on Managerial Risk Management Assurance.

The Chair asked that this amendment clarifies that there has been a reliance on Managerial assurance in terms of risk.

It was identified that this Report is to be submitted at the same time as the Financial Reports, by the 31st December. With the College shut down over the Christmas period, this action needs to be completed prior to close of business on the 18th December. Subject to the amendments being completed the Committee are happy for this report to be signed off.

ACTION: Rachel Lewis to amend the report and send final draft to the Chair before close of business tomorrow, ready for signing and submission on Friday 18 December 2015.

Post Meeting Note: The COO thanked Richard Lewis for his help over past months in completing necessary reports and audits.

19/15 DATE OF NEXT MEETING

It was agreed that the next meeting will take place on 8 March 2016 at 1700.

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Chair

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Date