

AU(08)M3

Audit Committee

**Minutes of the Forty-Sixth Meeting of the
Audit Committee
held on Wednesday, 19th November 2008 at 18.00hrs**

Members present: Mr W Archibald (In the Chair)
Dr M Bateman

By invitation: Ms G Livingstone (Bentley Jennison) (for minutes
5(a)(iii),6,7,9,11(b) (c) (d) (e), 12 & 17 only)
Ms Z Richardson (Baker Tilly) (for minutes 5(a)(iii),6,7,9,11(b)
(c) (d) (e), 12 & 17 only)

In attendance: Mrs B Billings (Clerk to the Corporation)
Mr G Blagdon (Director of Finance and Corporate Services)

1-08/09 Election of Chair

Ms H Oliver was elected the Chair of the Committee for the session 2008/09, however, as Ms Oliver was not able to be present at the meeting it was agreed that Mr Archibald should chair it.

2-08/09 Apologies for Absence

Apologies for absence were received from Ms S Hopkins and Ms H Oliver.

3-08/09 Minutes

The minutes of the meeting held on 25 June 2008 (AU(08)M2) were approved and signed as a correct record.

4-08/09 Actions Taken or Outstanding

The Committee noted a report on actions taken or outstanding since the last meeting (AU(08)28). With reference to minute 45-07/08 of AU(08)M2, the Director of Finance reported that the issue of disaster simulation exercises was to be discussed by the Health and Safety Committee on 26 November 2008.

5-08/09 Internal Audit Report – Governance

(a) The Director of Finance introduced and the Committee noted an internal audit report on governance (AU(08)29). During the ensuing discussion the following points were made:

- (i) The report had concluded that “Taking account of the issues identified, in our opinion the Board can take substantial assurance that the controls upon which the organisation relies to manage this area, as currently laid down and operated, are effective”;
- (ii) Several of the recommendations related to publication of minutes and information on the College website, this had now commenced. The reason this had not been done previously was for technical and staffing reasons and not due to any reluctance to publish this information; and
- (iii) The last few pages of the report had been published in the wrong format and as a consequence some of the columns were missing. Ms Livingstone undertook to forward a corrected version of the document to the Director of Finance.

Action: Ms Livingstone

- (b) The Committee agreed to recommend the report to the Corporation for approval.

Action: The Clerk

6-08/09 Annual Internal Audit Report 2007/08

- (a) Ms G Livingstone introduced and the Committee noted the Annual Internal Audit Report for the Year Ended 31 July 2008 (AU(08)30). It was commented that the report represented a summation of the previous internal audit reports that had been presented to the Committee during the year. It was noted that, with regard to overall assurance, the report concluded that sufficient internal audit work had been undertaken to allow the auditors to draw a reasonable conclusion and that the College had adequate and effective risk management, control and governance processes, to manage the achievement of the organisation’s objectives. During the ensuing discussion the following points were made:

- (i) The term “adequate” represented the highest level of assurance; and
- (ii) Ms Livingstone provided further details about the advisory review in respect of the College Catering operation which had recently been brought “in house”. In response to a question, the Director of Finance outlined the types of controls which were now in place to prevent fraud or other such problems within this area.

- (b) The Report was accepted and recommended to the Corporation for approval.

Action: The Clerk

- (c) The Committee thanked Ms Livingstone for the report and her attendance at the meeting.

7-08/09 Audit Needs Assessment Update

- (a) With reference to minute 38-07/08 (b) (iii) of AU(08)M2, the Committee received a presentation from Ms Livingstone about the new Internal Audit Methodology. In this presentation she covered:
- Evolution of Internal Audit
 - What are we moving to?
 - Risk Maturity
 - Assurance: a key element of risk management
 - Roll out of new methodology
 - Summary
- (b) During the ensuing discussion the following points were made:
- (i) The Internal Audit was moving to an updated risk based internal audit methodology, providing clearer audit options linked to specific risks and objectives; and
- (ii) The College Risk Register would play a key part in this process.
- (c) The Committee agreed that given the increasing importance of the College Risk Register and the significant risks the capital projects would expose the College to, it should give consideration at its next meeting as to how it should monitor, review and utilise this document in the future.

Action: The Clerk

8-08/09 Reports and Financial Statements for the Year End 2007/08

- (a) The Director of Finance introduced and the Committee noted the Report and Financial Statements for the Year Ended 31 July 2008 which included the final Regularity Audit Opinion (AU(08)31). During the ensuing discussion the following points were made:
- (i) The Report and Statements had not contained any qualifications;
- (ii) The Financial Statements showed a deficit on continuing operations, after depreciation of assets at valuation and tax, of £502k, however, this figure included £763k of expenditure relating to the proposed capital projects. If the expenditure on the capital projects was excluded, the underlying position of the College with regard to its normal operations was a surplus of £261k; and
- (iii) At its meeting on 18 November 2008 the Finance and General Purposes Committee had agreed to recommend the Report and Statements to the Corporation for approval.
- (b) The Committee agreed to recommend that the Statement of Corporate Governance and Internal Control make reference to the existence of the Capital Projects Steering Committee.

Action: The Director of Finance

- (c) The Committee agreed that the College should have an approved plan, as soon as possible, for dealing with the capitalisation of assets within the College accounts as a result of the capital projects. The Director of Finance undertook to liaise with the College's financial and internal auditors and produce such a plan for consideration by the relevant committees and the Corporation.

Action: The Director of Finance

9-08/09 Key Findings Regarding the Audit of the Financial Statements for the Year Ended 31 July 2008

- (a) Ms Richardson introduced and the Committee noted a report on the key findings of the audit of the Financial Statements for the Year Ended 31 July 2008 which included the Regularity Audit (AU(08)32). Ms Richardson took the Committee through the audit and accounting issues identified at the planning stage (capital projects, funding, teaching costs, regularity review, revised FRS17); audit and accounting issues identified (bank interest, depreciation policy and learner support funds); internal control issues (accounting policies, bank statements) and the unadjusted/adjusted misstatements. During the ensuing discussion the following points were made:
- (i) The discretionary learner support fund guidance had been updated for 2008/09 and the College would have to ensure that it complied with the new guidance;
 - (ii) The audit suggested that the College should review the assumptions used by the actuary when preparing the report on the College's liability under FRS 17. The actuarial report had been submitted to the Finance and General Purposes Committee on 18 November 2008 and the Chair was likely to study it in some detail; and
 - (iii) The audit suggested that the Corporation should formally review, on an annual basis, the accounting policies of the College prior to the approval of the financial statements. At its meeting on 18 November 2008 the Finance and General Purposes Committee had agreed that it should review the accounting policies at its February/March meeting so that its recommendations could then be submitted to the March Corporation meeting for approval.
- (b) The Committee agreed the draft Audit Findings Year Ended 31 July 2008 be accepted and recommended to the Corporation for approval.

Action: The Clerk

- (c) The Committee noted the Letters of Representation regarding the Financial Audit and Regularity Audit (AU(08)33 & AU(08)34) and agreed the Letters be accepted and recommended to the Corporation for approval and signature.

Action: The Clerk

- (d) Ms Richardson introduced and the Committee noted a report on learning and skills sector emerging issues (AU(08)35). It was commented that the issue of designation as a sixth form college would have to be considered by the Corporation and no doubt the Principal would be bringing proposals forward in due course.
- (e) Ms Richardson thanked the Director of Finance and his team for helping to ensure the audit went so smoothly and the Committee echoed this thanks.
- (f) The Committee thanked Ms Richardson for attending the meeting.

10-08/09 Annual Report of the Audit Committee

The Director of Finance introduced and the Committee noted a draft of its Annual Report to the Corporation and the Principal as Accounting Officer (AU(08)36). The Committee approved the submission of the Report to the Corporation.

Action: The Clerk

11-08/09 Risk Management Framework

- (a) The Clerk introduced and the Committee noted a report on the most recent meeting of the Risk Management Committee (AU(08)37). It was commented that it was important that attendance at meetings of the Risk Management Committee remained high.
- (b) The Clerk introduced and the Committee noted an annual report from the Risk Management Committee on the effectiveness of the College's system of internal control (AU(08)38). In response to a question the Director of Finance gave further details of the previous weaknesses associated with the College MIS system. It was agreed that the report be submitted to the Corporation.

Action: The Clerk

- (c) The Committee noted the latest version of the Risk Register (AU(08)39). Concern was expressed at the ever lengthening nature of the document, it was emphasised that the important issue was to manage risks and not merely record them. Ms Livingstone commented that the risk registers of other colleges were of a similar length.
- (d) The Committee noted the latest version of the Risk Action Plan 2008/09 (AU(08)40).
- (e) With reference to minute 14-02/03 (b) of AU(02)M3, no other issues raised at the Audit Committee meeting impacted on the Risk Register or Action Plan.

12-08/09 Publication Scheme

The Clerk introduced and the Committee noted an updated version of the College's Freedom of Information Act Publication Scheme (AU(08)41). The Clerk reported that some additional information such as: the College Self Assessment Report; some student policies; some health and safety policies and examination matters needed adding to the guidance document. It was agreed, subject to these additions, to recommend the updated Publication Scheme to the Corporation for approval.

Action: The Clerk

13-08/09 Review of the Work of the Auditors

- (a) The Committee reviewed the work of the Financial Auditors, Baker Tilly, using its previously agreed performance indicators (AU(08)42). It was noted that performance against all the indicators had been good and the Director of Finance reported that he believed they had delivered a good service.
- (b) The Committee reviewed the work of the Internal Auditors, using its previously agreed performance indicators (AU(08)43). It was noted that performance against all the indicators had been good.

14-08/09 Appointment of Financial (External) Auditors

The Committee gave consideration to the recommendation it wished to make to the Corporation regarding the appointment of Financial (External) Auditors for the session 2008/09. It was agreed to recommend that Baker Tilly be awarded the contract.

Action: The Director of Finance

15-08/09 Committee Priorities for the Forthcoming Year

- (a) It was agreed that the Committee's priorities for the forthcoming year should be:
- Ensuring the appropriateness of contract management and allocation in relation to the capital development projects and any other contract arrangements arising from business planning processes
 - Ensuring that the risks associated with the capital projects, particularly regarding impact on the College's usual business operations, were managed appropriately
 - Ensuring continued efforts in relation to embedding of risk management within the College
 - Ensuring appropriate activities were being undertaken to ensure business continuity at the College
 - Review of the updated Disaster Recovery Plan
 - Helping any new members to settle into their role on the Committee.

- (b) It was agreed that the Committee should review progress with regard to its priorities at each of its meetings.

Action: The Clerk

- (c) With regard to bullet point two above, it was agreed to review, at the next meeting, the section in the Risk Register being drafted by the Director of Finance and the Principal on some of the relevant key risks associated with the capital projects, such as the risk that the building work might lead to a reduction in student numbers and hence a corresponding reduction in College income.

**Action: The Principal
 The Director of Finance
 The Clerk**

16-08/09 Capital Projects Update

The Director of Finance gave an oral update on the progress with regard to the College's capital projects. During the ensuing discussion the following points were made:

- (i) Following a presentation by the Principal to the LSC Regional Capital Committee on 4 November, the College's Application in Principle had been approved. The Principal was confident that when it now went to the National Committee it would be endorsed;
- (ii) The deadline for contractors responding to the OJEU advertisement had now passed and the assessment panel had met. The aim had been to select five, plus a reserve, to invite to tender regarding construction of the Skills Centre;
- (iii) Sometimes it was difficult to obtain parent company guarantees when the parent companies were none UK companies;
- (iv) Planning permission had now been granted for both the Skills Centre and Campus redevelopment; and
- (v) Unfortunately agreement to exchange on the land for the Skills Centre had still not been received from the LSC, concern was expressed that this could jeopardise the project.

17-08/09 Internal Audit Meeting

The Director of Finance reported that the Internal Auditor wanted to speak to the Chair of the Committee and another member of the Corporation about risk management.

Action: The Director of Finance

18-08/09 Date of Next Meeting

Tuesday, 24 February 2009 at 18.30hrs.

Action: The Clerk

3(b)
BB/BB
G:Audit/agend&mins/AU(08)M3