

New College Corporation

Audit Committee

Thursday 5 June 2008

Minutes

Present: Mr V Davies (Chairman)
Cllr I Fletcher (part)
Mrs J Millington
Mr J Dean (part)
Mr P Boulter

In Attendance: Mr C Whiting (part) (Grant Thornton)
Mr S Islam (part) (KPMG LLP)
Mr G Clark
Mrs B Tyley
Mr R Goodrich
Mr P Taylor (Clerk)

1 Apologies

None.

[Clerk's note: The Committee were informed that Cllr Fletcher and Mr Islam would be joining the meeting at their earliest opportunity].

2 Confirmation of Minutes

The minutes of the meeting of the Audit Committee of 3 December 2007 were confirmed.

3 Declarations of Interest

None.

7 Financial Statements Audit Strategy

With the concurrence of the Committee, the Chairman determined that in view of the fact that Mr Islam from KPMG had been delayed in his attendance, item 7 would be considered in advance of other agenda items.

Mr Whiting (Grant Thornton) introduced the report (copy in minute book) for the Committee explaining that the document set out the key elements in the proposed strategy for the financial statements auditor's audit for year ending 31 July 2008. He noted that although the document represented a statement of work to date on the audit planning process, he believed that any material changes were unlikely to result from further discussion with the College. Any material changes would be reported to the Chairman of the Audit Committee.

In response to a question from the Clerk, he commented that the statement on confidentiality contained in section 1.4 of the document should be understood to relate to the fact that its status is that of a working document rather than to any necessity to refrain from public disclosure.

Mr Whiting summarised the engagement terms and objectives set out in the report and reviewed the audit strategy and audit approach to be used. In particular he noted the intention for the audit work to focus on those areas most material to College activities, and the intention to rely on the work of the internal audit service in respect of Learner Number Systems. He referred to the intention to utilise 'auditCARE' in respect of internal controls over the financial reporting, and responded to a question from Mrs Tyley confirming that it built upon the work undertaken in last year's audit (conducted immediately after the Robson Rhodes/Grant Thornton merger). In response to questions from the Chairman and others he explained the judgements to be made in relation to 'materiality'.

He concluded by noting that the intention was to complete the work in the period September/October 2008. Mrs Tyley reported the impending retirement of David Smith, the College's accountancy contractor and noted that the final plan for the financial statements audit would need to accommodate Mr Smith's departure and the appointment process of his successor.

After receiving satisfactory explanations of matters of detail within the document, the Committee resolved to note and receive the report.

[Clerk's note: at this point in proceedings, Mr Whiting left and Mr Islam joined the meeting].

4 Internal Audit Annual Reports 2007/08

Mr Islam introduced the reports for the Committee (copies in minute book) and for each one in turn highlighted the conclusions and key recommendations.

B1 Additional Learners Support (ALS)

Mr Islam reported that the internal auditor's conclusion was that the system of internal control, risk management and governance was weak. He noted the key findings and reviewed the issues involved in: global reconciliation; hourly rate calculation; compliance testing; and resources. He described the recommendations made (1 high, 4 medium and

1 low in terms of significance) and noted management's positive response to them, with which he was content.

In debate, in response to a question from Mr Boulter on the significance of the report's findings, particularly the detail of the discrepancies revealed in the tested ALS learner files, Mrs Tyley acknowledged the importance of the shortcomings revealed in the audit. She stressed the need to ensure that ALS administration was tightened, but assured the Committee that none of the deficiencies identified had any impact on the College finances. She reported that work was now in hand to address all the issues identified by the auditors, and she was hopeful that an internal audit service re-visiting of the review would result in a revised assessment of 'satisfactory'. She would wish for the re-assessment to be completed in time for a revised, more positive outcome to be included in the internal audit service's annual report.

B2 Human Resources

Mr Islam reported that from the work performed on the Human Resources function, the auditor's conclusion was that the system of internal audits, risk management and governance processes were satisfactory. He noted that 7 recommendations had been made: 4 in the medium risk category and 3 in the low risk category. All had been agreed by management and he was content with management's response. He summarised the key findings of the report in terms of: staff performance management scheme; review of HR policies and procedures; human resources strategy; and interview panels and documentation.

[Clerk's note: at this point in proceedings Cllr Fletcher joined the meeting].

In debate, on the review of HR policies, Mrs Tyley reported on progress in a thoroughgoing review of all policies and procedures and appropriate consultations with unions. She anticipated that revised procedures would be ready for consideration by the Corporation in the autumn of 2008.

In debate on interview panels and documentation, Mr Boulter and Mrs Millington supported the view that training for interviewers would be useful, whilst acknowledging that circumstances might dictate that not all persons involved would be trained. Mrs Tyley responded that the HR function was always represented at interview and that they were pursuing a rolling programme of interview training in the context of a programme of wider HR training. Mrs Millington supported the concept of involving governors in some staff appointments and Mr Clark described the wider selection processes involved in senior appointments including the involvement of governors.

B3 Income and Receivables

Mr Islam reported that from the work performed on income and receivables, the auditor's conclusion was that the system of internal controls, risk management and governance processes were satisfactory. He noted that 3 recommendations had been made: 2 in the medium risk category and 1 in the low risk category. He reported that he was content with the management responses to the recommendations.

He summarised the key findings in respect of: income procedures; segregation of duties; and invoicing HND and HNC courses.

In debate on the segregation of duties within the finance office, Mrs Tyley reported that given the size of the team and the range of duties involved, they did not feel that complete segregation of duties was possible. However they had undertaken to re-examine the roles and responsibilities of the team with a view to maximising segregation of duties. On the matter of HNC/HND students Mrs Tyley acknowledged that the recording and invoicing should have been tighter and outlined steps taken to resolve the matter.

B4 Risk Management and Corporate Governance

Mr Islam reported that from the work performed on risk management and corporate governance, the auditor's conclusion was that the system of risk management and governance was satisfactory. He noted that 7 recommendations had been made: 2 in the medium risk category and 5 in the low risk category.

He reported that he was content with the management responses to the recommendations. He summarised the key findings in respect of mitigating controls, embedding risk management and negative publicity, noting the key recommendations made. In debate on negative publicity, Mrs Tyley commented that senior managers were well versed in handling publicity matters, but that the process had not been fully documented. In response to questions from Mr Davies and others, Mrs Tyley undertook to look at the introduction of a flow chart setting out procedures.

B5 Follow Up Review 2006/07 Recommendations

Mr Islam reported that following the review of the level of implementation of previous recommendations, the auditor's conclusion was that progress was satisfactory, although the College should ensure that it implements the outstanding recommendations as soon as possible. He reported that the 22 recommendations made in 2006/07 were followed up, as were 28 accepted recommendations outstanding from 2005/06. He noted particularly that of the outstanding recommendations from 2005/06, 10 related to the implementation of the requirement of the Freedom of Information Act (FOI).

In debate, in response to questions and comments from Mr Davies and Cllr Fletcher, Mrs Tyley responded that originally the responsibility for implementing the recommendations was with the IT manager. However operational priorities took precedence and the recommendations remained outstanding. Following the departure of the IT manager, responsibility for implementing the FOI recommendations had been transferred to the new manager and the Assistant Director Resources. It was anticipated that implementation would be completed by August 2008.

B6 Information Security Management

Mr Islam reported that from the work performed on information security management, the auditor's conclusion was that the system of internal control, risk management and governance was satisfactory. He summarised the key findings in respect of: information security policy, security tagging, use of laptops, password management and information security reporting, noting the key recommendations made. He reported that 5 recommendations had been made: 4 in the medium risk category and 1 in the low risk category, and that he was content with the management responses to them.

In debate, Cllr Fletcher commented that he found the report useful, and was pleased to note that the College had undertaken to secure improvements identified in the report's recommendations.

Having considered all the internal audit service reports presented, Mr Davies and others thanked Mr Islam for his presentations and commented favourably on the clear format of the reports.

The Committee resolved to receive the reports.

5 Internal Audit Annual Report 2007/08 – Draft for Discussion

Mr Islam introduced the report (copy in minute book) for the Committee, explaining that it provided an account of the conclusions reached following an agreed input of 27 days in 2007/08 all of which had been delivered. He reported that the draft overall assurance for 2007/08 was that the internal audit service is satisfied that sufficient internal audit work has been completed to allow them to draw a reasonable conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes. In their opinion the College has adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives. The only exception to this is in the area of Additional Learner Support where they have concluded that the control, risk management and governance processes are weak in this area.

Mr Islam noted that the report remained a draft and subject to amendment before its final presentation to the Committee and Corporation in autumn 2008.

In debate, Mrs Tyley commented that they were hopeful that a re-examination of systems in Additional Learner Support might be possible before the finalisation of the report, and that a removal of the 'weak' conclusion might be warranted.

The Committee resolved to note the draft Internal Audit Annual Report 2007/08.

6 Risk Management Plan

Mr Goodrich introduced the report (copy in minute book) for the Committee, explaining that the report contained an updated risk management register, risk assessment matrix and control framework. He commented that the update had been compiled by the Risk Management and Planning Group that had a specific remit to review the plan, monitor the implementation and impact of improvement actions, and to ensure that a robust disaster planning is extended. Mr Goodrich reported that the revised register takes account of the points raised at the December 2007 meeting of the Audit Committee regarding risks associated with curriculum and governance. In response to a question from Mr Davies, Mr Goodrich gave the Committee an account of the operation of the Risk Management and Planning Group, including its membership and frequency of meeting.

In debate, Mr Boulter asked about the assessment of risks arising beyond the College's control, and therefore not easily mitigated, citing changes in demography or the development of sixth forms or academies elsewhere in the locality. Mr Clark commented that these large or 'macro' risks were somewhat beyond the range of the risk register and were more relevant to the College's strategic plan which should address the matters

identified. These matters were regularly considered by the College's senior management team.

In debate, Mr Dean, Cllr Fletcher and Mr Davies commented on various aspects of the risk register and agreed that the format and contents were helpful, noting that changes in register entry rating movements provided a useful indication of matters to be brought to the Audit Committee.

Turning to the Risk Assessment with Control and Assurance Framework (included at appendix C to the report), Mr Goodrich drew the Committee's attention to the addition of new columns and relating to 'source and date of assurance' and 'areas for development'. Entries in these columns are to be completed by September 2008.

Following further questions and responses on matters of detail, the Chairman congratulated all those involved in the production of the report, and commended the work of the Risk Management and Planning Group.

The Committee resolved to receive the report.

8 Indicative High Level Internal Audit Plan 2008/09

Mr Islam introduced the report (copy in minute book) for the Committee, explaining that it constituted a draft for discussion of the possible internal audit service input for the next five years. It was intended to refine the plan for presentation to the Audit Committee in December 2008.

In debate, Mr Dean questioned whether, given the extent of developments in Human Resources policies identified earlier in the meeting, not revisiting HR until 2012/2013 was appropriate. In response, Mrs Tyley undertook to keep the matter under review, and noted that HR matters would feature significantly in next year's follow up review. Mrs Tyley reported that the LSC had raised a query on a technical matter which would need to be resolved, with any matters arising from its resolution reported to Audit Committee.

The Committee agreed that the plan formed a useful basis for future internal audit service work, understanding that some changes might prove necessary in response to the exigencies of College life.

The Committee resolved to receive the report.

9 Review of Performance of Internal Audit Service and Financial Statements Auditor and Audit Appointments

Before consideration of this item, the Committee resolved that it had no objection to Mr Islam remaining, members feeling no inhibitions about open statements of performance.

Mr Goodrich introduced the reports (copies in minute book), explaining that they summarised the College's assessment of the work undertaken by both auditors in the last year. He reported positively on the work of both auditors, noting there were no areas of

unsatisfactory performance in relation to the Committee's approved Performance Indicators.

Following consideration of the College's assessment, the Committee resolved to recommend to the Corporation the re-appointment of KPMG LLP as internal audit service and Grant Thornton UK LLP, as financial statements auditors.

10 Date of Next Meeting

The next meeting of the Audit Committee will be held at 5.30pm on Tuesday 2 December 2008.