

# **New College Corporation**

## **Audit Committee Wednesday 20 May 2009**

### **Minutes**

**Present:** Mr J Dean  
Mrs J Millington  
Mr S Walton

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

#### **1 Appointment of Chairman**

In view of the absence of two Committee members, the Committee agreed to defer the appointment of a Chairman of the Committee for the ensuing year, and resolved to appoint Mr Dean as Chairman of the meeting.

#### **2 Apologies**

Cllr I Fletcher, Mr Barnes (Grant Thornton LLP).

The Committee welcomed Mr Walton to his first meeting of the Audit Committee.

#### **3 Confirmation of Minutes**

The minutes of the meeting of the Audit Committee of 2 March 2009 were confirmed.

#### **4 Declarations of Interest**

None.

#### **5 Internal Audit Reports 2008/09**

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

#### **B1 Risk Management and Corporate Governance (02-09)**

Mr Islam reported that from the work performed on Risk Management and Corporate Governance, the auditor's conclusion was that the system of internal control, risk management and governance is satisfactory. He noted that six recommendations had been made: three in the Medium Risk category and three in the Low Risk

category. He was content with the management's response to all recommendations. He commented that he considered the College had made good progress in the area of risk management, and that the recommendations were aimed at securing further improvements. He summarised the main elements of three recommendations made in the Medium Risk category. On the assurance of the effective operation of risk mitigation controls he noted the importance of ensuring that identified controls are operating effectively to mitigate risk.

In debate, in response to a question from Mr Dean, Mrs Tyley and Mr Goodrich acknowledged the importance of the recommendation, and commented that the control cited in the report (annual training for examination invigilators) had, in fact, operated, but that there were shortcomings in the evidence trail to record it fully.

On the articulation of the College's risk appetite, Mr Islam noted its importance in the allocation of resources to minimise risk exposure. Mrs Tyley commented that the College felt there could be merit in the approach advocated, and would wish to examine the matter further before committing to adoption.

On insurance arrangements, Mr Islam recommended that the College should explicitly link its insurance requirements to its risk management arrangements. In response to questions from Mr Walton and Mr Dean, Mrs Tyley and Mr Goodrich commented that the College was satisfied with the work of its insurance broker, and that the College had comprehensive insurance arrangements. However, they undertook to consider the matter against the risk register matrix and discuss the recommendation with the College's insurance broker.

## **B2 Ordering, Purchasing and Payments**

Mr Islam reported that for the work performed in the area of ordering, purchasing and payments, the auditor's conclusion was that the system of internal control, risk management and governance is satisfactory. He noted that five recommendations had been made: two in the Medium Risk category and three in the Low Risk category. He summarised the main elements of the two recommendations made in the Medium Risk category.

On the matter of the preparation of control account reconciliations he commented that the bank and creditor control accounts reconciliations had been undertaken effectively, but noted the importance of ensuring that they are produced in a timely manner. Mrs Tyley, in accepting the recommendations, commented that principally staff changes had meant that monthly reconciliations had been delayed, but that now an agreed timetable for undertaking them had been put in place.

On the matter of access to the finance system Mr Islam noted the importance of undertaking periodic reviews of access rights to the finance system, and ensuring

that access for former staff is effectively disabled. The response to a question from Mr Walton, Mrs Tyley explained that they had coped with staff changes by assigning new passwords for those who had left, and ensuring that these were not known by others in the finance team. However, they were now working with the software supplier to develop a more suitable approach.

### **B3 Follow up Report 04-09)**

Mr Islam summarised the main findings set out in the report, noting that the conclusion was that overall progress in the implementation of previous recommendations was satisfactory, and commented that in respect of recommendations related to risk management and corporate governance progress was good, and that there were no outstanding recommendations in the high risk category.

In response to a question and comment from Mr Walton, Mr Islam reviewed the risk categorisation used by KPMG LLP, and described the main characteristics of risks in the High, Medium and Low Risk areas.

The Committee resolved to receive the report.

## **6 Internal Audit Strategy and Annual Plan 2009/2010**

Mr Islam introduced the report (copy in minute book) for the Committee. He reviewed briefly KPMG's audit approach and summarised the key elements of the annual plan for 2009/2010 which had been the subject of consultation with Mrs Tyley and Mr Goodrich. He reported on the audit team undertaking the work and referred to the five year rolling plan set out in the report. He drew the Committee's attention to the reviews planned for 2009/10, commenting that the programme was somewhat larger than usual, reflecting the College's scheduling requests.

The Committee resolved to receive the report, approving the plan.

## **7 Financial Statements Audit Strategy**

In the absence of Mr Barnes from Grant Thornton LLP, Mrs Tyley introduced the report (copy in minute book) for the Committee, noting that the timetable for the audit for year ended 31 July 2009 involved work between September and November 2009. She also drew the Committee's attention to the key audit issues set out in the report, in particular that related to 'going concern' confirmation matters in the light of the transition of funding responsibilities from the LSC.

The Committee resolved to receive the report.

## **8 Risk Management Plan**

Mr Goodrich introduced the report (copy in minute book) for the Committee commenting that it had been the subject of consideration by the College Risk Management and Planning Group. He referred to the results of the latest (May 2009) Risk Register Review and noted that there were no movements in rating as a result of the review. He referred also to the Risk Assessment Matrix and the seeming inevitability of the appearance of the risk 'College fails to achieve appropriate performance/outcomes in: its strategic and development plan; self assessment/improvement planning; or external reviews' in the high probability/high security segment of the matrix.

In an informative extended debate on the matrix, Mr Walton questioned the acceptance of 'high probability' as an inevitable descriptor of the risk described above for this seemed to suggest that any mitigating controls put in place would be ineffective in their operation. Mr Goodrich and Mr Islam commented that probability descriptor is best considered in relation to 'gross risk' and that the mitigating controls are established with the intention of reducing the probability to a 'net risk' which is not shown in the matrix. Mr Clark commented that from his perspective, given the financial and organisational environment within which the College operated many of the risks set out in the matrix could be considered to be 'high' should they occur extensively. In particular he referred to the potential serious outcomes for the College should there be any significant curriculum failure.

After further debate, Mr Goodrich undertook to report the Committee's comments on probability matters to the Risk Management and Planning Group.

The Committee resolved to receive the report.

## **9 Progress with Implementing Previous Audit Recommendations**

Mr Goodrich introduced the report (copy in minute book) for the Committee, explaining that it was a standing item on the Committee's agenda summarising progress on all outstanding recommendations identified as 'high' as 'medium' risk by the current internal auditors (KPMG), together with those from the Provider Financial Audit (PFA) review conducted during the last Ofsted inspection. He summarised briefly the progress made overall, noting that of the 14 outstanding recommendations two had been completed, with further significant progress made towards completion made an implementation on an additional five.

After helpful comments on presentation from members, the Committee resolved to receive the report.

## **10 Financial management and Control Evaluation**

Mrs Tyley introduced the report for the Committee (copy in minute book) commenting that the report constituted a formal letter from LSC concurring with the College's assessments of 'Good' for both the financial arrangements and control evaluation.

The Committee resolved to receive the report.

## **11 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.

*[Clerk's note: the Audit Committee does not have the power to make audit appointments; these can only be made by the Corporation]*

Mr Goodrich introduced the reports (copies in minute book) explaining that they summarised the College's assessment of both auditors in the last year. He reported positively on the work of both auditors, noting that 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.

## **12 Date of next meeting**

The next meeting of the Audit Committee will be held at 5.30 pm on Wednesday 25 November 2009.