

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD ON FRIDAY 26 NOVEMBER 2010 AT 8.00am**

PRESENT:

Tony Grady
Nigel Hallam
Karen Harrison

IN ATTENDANCE:

Geoff Hall – Principal
Julie Ashton – Deputy Principal
Andrew Hartley – Vice Principal of Finance and Resources
Maria Semak – Interim Director of Corporate and External Affairs
Alastair Hunt – Tenon
Tony Felthouse – KPMG
Claire Kay - Clerk to the Corporation

1. CLOSED SESSION: COMMITTEE MEMBERS AND AUDITORS

Members used the session to follow up items raised at previous meetings and to discuss any items the auditors wished to bring to the attention of the Committee including the audit process. Members were pleased to hear that both audit firms considered the audit process had been positive and had run smoothly.

2. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Lucy Dadge, Thulani Molife, Mike Rowley and Jonathon Creed. The Committee accepted these apologies. The Committee appointed Nigel Hallam to act as Chair for the duration of the meeting.

3. DECLARATIONS OF PERSONAL INTEREST IN AGENDA ITEMS

There were no declarations of interest recorded in the agenda items.

4. MINUTES

The minutes, including the confidential minute, of the meeting held on 4 October 2010 were confirmed and signed, subject to a point of accuracy under item 9.

5. MATTERS ARISING

Members noted item 15, strategic risk review would be deferred to the next meeting. The Vice Principal of Finance and Resources updated members on the actions being taken to implement the changes needed following the new requirements under the Bribery Act. The Committee would be required to approve any necessary amendments in policy in due course.

6. DRAFT FINANCIAL STATEMENTS 2009/10

The draft financial statements had been circulated to members for review. Although some presentational amendments would be made to the document prior to the Corporation meeting the final outturn position would not alter. Members welcomed the positive outturn and congratulated the Finance Team for managing the financial position to a surplus above budget expectations.

The Audit Committee were required to review the Statement of Corporate Governance and Internal Controls and if satisfied recommend that element of the Financial Statements to the Corporation as part of the Corporation's approval of the overall Financial Statements.

Members explored the potential of any post balance sheet events and the notional obligation relating to the Adams Building outlined in note 37.

The Committee passed the following resolution:

The Audit Committee recommend the Statement of Corporate Governance and Internal Controls to the Corporation for approval.

7. EXTERNAL AUDIT MANAGEMENT LETTER

The report was presented by KPMG and the key points within the document brought to the attention of the Committee.

KPMG thanked the management team for a smooth audit process. The independence of the audit function was highlighted along with the underlying financial position of the College and the performance of the College against funding targets. The College's assumptions relating to FRS 17 were considered reasonable and the changes resulting from the use of the Consumer Price Index to determine pension increases was brought to member's attention. The audit differences were noted by the Committee, none were material. Two recommendations relating to the control framework were raised in the report, both were medium priority but neither related to fundamental controls. KPMG updated the progress against recommendations made in 2008/09 and noted all had been implemented satisfactorily.

Members congratulated the Finance and Audit teams for a very positive management letter, which members found very useful. The Principal and Accounting Officer considered the management letter to be very re-assuring.

The report was noted and the Committee passed the following recommendation:

The Committee recommend the External Audit Management Letter 2009/10 for approval by the Corporation.

8. ANNUAL ATTEMPTED FRAUD REPORT

The Committee received the annual attempted fraud report and noted its contents. Members requested the Fraud Risk Register be attached to future annual reports to aid understanding of the control framework.

The report was noted.

9. FINANCIAL MANAGEMENT AND CONTROL EVALUATION

Members reviewed the process undertaken to update the FMCE for 2009/10. The College considered the overall grading had not changed and were therefore eligible to submit a shortened FMCE to the SFA. Members gained assurance from the audit firms that the audit opinions provided during the year concurred with the overall judgements given in the self evaluation.

The report was noted and some minor amendments made to the improvement plan. The Committee passed the following resolution subject to the changes being implemented:

The Committee recommend the Financial Management and Control Evaluation to the Corporation for approval.

10. ANNUAL REPORT OF THE AUDIT COMMITTEE

The draft report was presented to the Committee for comment. The report followed the format used in previous years recognising the work undertaken by the Committee during the year. The conclusions reached in the report provided the Corporation with assurance

that the responsibilities of the governing body included in the financial statements had been satisfactorily discharged.

Members commented on amendments required in the risk management section of the report and the conclusions relating to prior year recommendation contained within the management letter from KPMG to be specific.

The report was noted and the Committee passed the following resolution, subject to the changes being implemented:

The Committee recommend the Annual Report from the Audit Committee to the Corporation for approval.

11. ACCOUNTING OFFICER'S ANNUAL REPORT ON INTERNAL CONTROLS

The Principal found it useful to comment on the operation of the controls framework and the external indicators on which he placed assurance. The importance of data assurance for external agencies and internal management information was clear and members welcomed the content and assurance given by the report.

The Committee passed the following resolution:

The Committee received the Accounting Officers Annual Assurance Report.

12. REVIEW OF PERFORMANCE OF FSA

FSA withdrew from the meeting for this item.

Members reviewed the assessments made by management and KPMG respectively against the performance indicators. Members concurred with both assessments that the FSA's performance had been good during the year. Members agreed to suggest KPMG strive to improve two specific performance indicators. The first relating to working relationships (performance indicator 9), given the new management of the audit. The second relating to performance indicator 10, given the value placed by members on KPMG's contributions at meetings, providing effective and useful contributions to the Committee could be developed further.

The report was noted and the Committee passed the following resolution:

The Committee recommend KPMG are appointed as Financial Statements Auditors for 2010/11 by the Corporation.

13. REVIEW OF IT CORE CONTROLS

Shirley Blakemore, Director of ICT, was welcomed to the meeting for this item.

Members were updated on the progress made on recommendations from the IAS report received by the Committee at the October meeting. SB outlined some of the challenging developments currently underway which would make further improvements to some of the control areas reviewed by the IAS.

Members discussed with SB how further audit assurance work outlined in the audit plan for 2010/11 could be used to maximise effectiveness within ICT. It was agreed that IAS should work with the ICT team to review the project development work currently being planned to consider whether advisory work could be used to help risk assess key strategic developments. Members would return to this item when considering the IAS plan under agenda item 15.

Members explored data security with SB and gained assurance that the risk of data loss through mobile devices was considered low, but new risks around data security through "cloud" computing were currently being assessed.

Members thanked Shirley for attending the meeting, considering her contribution very informative.

14. STAFF UTILISATION

A progress review was given to members on the actions taken to address staff utilisation. Members were pleased to see significant progress had been achieved, with 11 out of the 12 recommendations now fully implemented. Alternative solutions were being developed where the electronic register system could not be implemented e.g. High Pavement and some off site provision.

A review by IAS of the new systems was planned to take place during the 2010/11 year which would provide assurance that the systems were embedded and working effectively, with open and transparent use of data within teams and across teams.

The report was noted.

15. INTERNAL AUDIT REPORTS

Payroll

Members noted the substantial assurance provided to this area of control which represented a significant proportion of College expenditure. Only one medium priority recommendation was given relating to exception reporting which was agreed by management.

The report was noted.

Creditor payments and purchases

Members noted the substantial assurance provided by the report and the two medium priority recommendations made around improving the on-line ordering system. Management considered the feedback received on orders had been very useful.

The report was noted.

Progress report

Members reviewed the progress made against the plan for 2010/11 and welcomed the improvements made compared to the same point in the previous year. Members considered whether the proposed review of HR case management was an appropriate use of the contingency days within the plan. Members considered strategic HR issues relating to the HR Strategic Plan may require review in particular staffing levels, sick days and PDR processes. Management considered further reflection on the use of these days was required. Consideration was given to the ICT added value work discussed under item 13. 2 days were identified from the Business Continuity review to undertake initial assessment work and a revised plan would be discussed at the March meeting.

Members took the opportunity to explore the staffing arrangements within the Finance Team to seek assurance that the skills and experience required to support the Vice Principal Finance and Resources was in place.

16. RECOMMENDATION TRACKING

The outstanding recommendations were presented to members. Members reviewed the outstanding items on the recommendation tracking document noting the updates. Members discussed the appropriateness of carrying forward an "at risk" flag for learners and managers agreed to revisit this recommendation in light of the comments made. Members reviewed the outstanding items from 2008/09 and 2009/10 and were satisfied these were being appropriately progressed.

The report was noted.

17. COMMITTEE SELF REVIEW 2009/10

The report presented to the Committee had been compiled using individual self assessments undertaken by the Committee members. Members reviewed the compliance aspect of the Committee's work and the progress made against areas identified for improvement during the previous year's review. Members discussed the arrangements in place for achieving value for money and considered the appointment of RSM Tenon was with a specific brief to improve this area of work and good evidence had been provided during 2009/10 that added value was being achieved in this area.

Members received assurance from the auditors present that the level of challenge and engagement of Audit Committee members was appropriate and that the auditors considered the drive for effectiveness within the Committee an outstanding feature. Members wished to refer succession planning for the membership of the Committee to the Search Committee for consideration, to ensure the appropriate level of skills needed on the Committee was planned for in the future.

Members agreed the areas for improvement should be to develop a wider understanding of the risk and value for money activities within the operations of the College, to provide training opportunities for members during the year, review the reporting of risk and corporate performance indicators and progress the strategic focus of the Committee. In addition members were satisfied the individual self assessments undertaken by members had added value to the process of self review and wished to develop a 360 degree element to the process in 2010/11 to gain assurance from management and auditors as to the Committee's performance.

Members agreed to the following self assessment grades:

- Effectiveness – good
- Risk management – good
- Value for money – good
- Decision making – outstanding

The Committee passed the following resolution:

The Committee agree to the amendments in the Committee Terms of Reference and recommend these for approval by the Corporation.

18. MINUTES OF THE ARM GROUP

The minutes were noted by the Committee.

19. CONFIDENTIALITY OF BUSINESS

No items were considered confidential by members.

18. DATE OF NEXT MEETING

The next scheduled meeting would be Friday 4 March 2011.

The Chair closed the meeting at 10.40am.

SIGNED: _____
DATE: _____