
Minutes of the Audit Committee Meeting held on Thursday 25th November 2010 at 4:30 pm in the Boardroom, Hagley Road Centre

Present:

Amanda Bache
Fred Bentley (Vice Chair)
David Darlaston (Chair)
Tony Seaton
David Whitehouse (Co-opted)

In attendance:

Steve Cutler (Assistant Principal)
David Beasley (Interim Clerk)
Kevin Bruerton (BDO)
Jon Lanes (BDO)
Bill Devitt (Baker Tilly)

1 Apologies for absence

The Chair welcomed everyone to the meeting, particularly Amanda Bache and David Whitehouse who were attending their first committee meeting as governor and co-opted member respectively. Apologies for absence had been received from Dennis Hodson.

2 Declaration of interests

No interests were declared.

3 Minutes of Previous Meeting**3a Approval**

The minutes of the meeting held on 24th June 2010 were agreed and signed as a true record.

3b Matters Arising

3b.1 The Chair asked concerning the observation made by Jim Conway on the importance of treating Equality and Diversity as high priority. Kevin Bruerton said that he had not yet met with the College Executive to discuss the topic. Steve Cutler advised that Louise Jones now had Equality and Diversity responsibility across the College and that an Equality and Diversity Officer had recently been appointed.

3b.2 The Chair asked concerning the inclusion of the Property Strategy review within the audit schedule at the end of the year; Kevin Bruerton confirmed that the topic was addressed in the Annual Report. Steve Cutler said that he would circulate the Property Strategy Internal Audit Report to members for information.

4 Governance Items**4a Committee Terms of Reference**

4a.1 The Clerk said that the Terms of Reference (TORs) for the Committee had been amended in line with the governance structure changes approved by the Corporation in March, and to refer to the latest Instrument and Articles of Government. The Chair noted that the TORs referred to the Learning and Skills Council (LSC) that no longer existed. It was agreed that, given that the Committee still operated in accordance with the LSC's Audit Code of Practice and that replacement audit guidelines had not been issued by the new bodies, the existing TORs should remain in place for the time being. Tony Seaton raised the question of additional members being appointed to the

Committee; the Chair advised that any consequential amendment to the TORs that might be necessary would be addressed following decisions made by the Corporation.

- 4a.2 The Chair noted that the TORs required the Committee to monitor the effectiveness of the auditors; he asked Steve Cutler to propose some appropriate performance measures and to liaise with the Clerk. Bill Devitt said that Baker Tilly could suggest some KPIs, and Kevin Bruerton said that some were included in the Internal Audit Annual Report.

The Committee resolved:

To recommend the Terms of Reference to Corporation for approval.

5 Reports for Recommendation to Corporation

5a Internal Audit Annual Report

- 5a.1 Kevin Bruerton explained that the Internal Audit Annual Report represented the end of the yearly audit cycle. The Committee had agreed a plan in July 2009 and this report was the result of that work. The LSC and the Skills Funding Agency both required a report to be produced on risk management and governance, and this topic was addressed in the Annual Report that was issued to Governors and the regulatory bodies.

- 5a.2 Kevin Bruerton noted some key items in the Report:

- (1) The 'Good' level of assurance for the Property Strategy review carried out at the end of the year (page 11);
- (2) Of the 64 outstanding internal audit recommendations, 60 had been fully implemented (page 12).

He said that this was a very good outcome and noted that the College had suggested high risk areas for BDO to audit. He advised that there were actions arising from the in-year follow-up review of Student Services (Learner Support Fund) that still had to be followed-up.

- 5a.3 Kevin Bruerton reported that, in the opinion of the auditors, with the exception of Student Services Learner Support Fund area, the College had adequate and effective risk management, control and governance processes in place with which to manage the achievement of its objectives. Steve Cutler confirmed that actions were in hand to address the outstanding recommendations in the Student Services area.
- 5a.4 Kevin Bruerton referred the Committee to pages 15 and 16 of the Report, summarising the performance against plan for each of the audit areas and noted that all the target dates had been achieved.
- 5a.5 The Chair thanked BDO for the report and asked for any questions to be raised. Fred Bentley welcomed the report and said that it had been a good year from an audit programme perspective. David Whitehouse asked what approach the College took to monitor the recommended actions. Steve Cutler said that he was putting together a management report to the Committee that would be reviewed monthly by the College Executive Group (CEG) as he wanted to put in place a more robust management approach. Kevin Bruerton advised that it would be appropriate to feed this report into future Committee meetings so that the information could be incorporated in the Annual Report. The Chair commented that the Committee had tried to ensure that it worked collaboratively with the Internal Auditors so that best use was made of the days available and thereby help the College move forward.
- 5a.6 The Chair queried the assurance terminology changes that had been introduced in the Report and asked if they resulted in any more clarity. He wanted to ensure that

the reporting was consistent. Kevin Bruerton explained that the changes had been introduced company-wide and would be used for all reports from 2010/2011 onwards.

The Committee resolved:

To recommend the Internal Audit Annual Report to Corporation for approval.

5b Audit Committee Annual Report

5b.1 The Clerk summarised the report describing the work of the Audit Committee during 2009/2010, which was set out under the following headings:

- (1) Membership, attendees, meetings held and Terms of Reference;
- (2) Internal Audit programme and conclusions;
- (3) External Audit programme and conclusions.

5b.2 The Clerk noted the statements in the Report that the Audit Committee was content that the work defined in the agreed Internal Audit Plan had been carried out by BDO satisfactorily, and that the Financial Statements Audit and the Regularity Audit carried out by Baker Tilly had been carried out in a professional and timely manner.

5b.3 The overall opinion of the Internal Auditor, as discussed under agenda item 5a, was noted and in the light of the statement in the Report concerning the implementation of the outstanding recommendations related to the Student Services (Learner Support Fund) audit, the Chair welcomed the confirmation from Steve Cutler that they would be addressed by the end of the year.

5b.4 The Chair confirmed that the Report was a fair reflection of the work of the Committee during 2009/2010 and the results of the Internal and External Audit programmes.

The Committee resolved:

To recommend the Audit Committee Annual Report to Corporation for approval.

5c Risk Management Annual Report

5c.1 Steve Cutler summarised the key points highlighted in the Risk Management Annual Report. He said that the College's risk management framework was based on a structured approach of formal reviews of risk action plans by the Vice Principals throughout the year, coupled with reviews of the directors' risk registers. A total of 13 Risk Action Plans had been reviewed during the year. Satisfactory progress had been made in all areas, with good progress achieved in the HR, Estates and IT areas which had received a green status. No action plan had received a red status at the close of the year.

5c.2 Steve Cutler stated that a number of high-level risks had been addressed during the year and the associated impact and likelihood reduced as a result of the actions taken. Key risks that remained were set out in pages 2 and 3 of the Report together with the actions that had been identified. The Chair commented that many of the key risks set out in the Report reflected the changing FE landscape.

5c.3 David Whitehouse asked why not all the Risk Action Plans had been given a green status. Steve Cutler said that this was because although progress had been made not all the associated actions had been fully implemented. Jon Lanes asked if amber plans were reviewed more frequently, and Steve Cutler advised that all plans were reviewed regularly. David Whitehouse asked what was acceptable in terms of action plan status and Steve Cutler said that if a statistical view was needed that would need the status definitions to be reviewed so that all items were judged on an equal footing. The Chair advised that the risk management agenda was now split across the Audit, the Finance, Resources & Property and the Students, Curriculum & Quality Assurance Committees so that the Corporation could focus on the key items. In future it would be useful if the appropriate risks could be filtered & reported accordingly.

Steve Cutler agreed and added that risks were also looked at by the Link Governors. Fred Bentley said that the action plans with amber status reflected work in progress. It was agreed to include a section on Risk Management in future annual Audit Committee Reports as part of the assurance provided to Corporation.

- 5c.4 Fred Bentley asked what the current Risk Appetite looked like for the College given the current climate and other factors such as the New Build. The Chair suggested that Committee members and the Executive consider this topic, including how it should be reported, and bring suggestions back to the next meeting.

The Committee resolved:

To recommend the Risk Management Annual Report to Corporation for approval.

5d Members' Report and Financial Statements, including Regulatory Audit

- 5d.1 Steve Cutler said that the report set out the College's financial position at the end of the accounting period, a surplus of £1,028K compared with the forecast as per the July Management Accounts of £271K. The variances were explained in the report and were mainly accounting adjustments. Some accruals had to be released and the contingency related to the sub-contractor dispute was no longer required. There had also been savings on Estates expenditure and staff costs. He noted that the Balance Sheet showed an increase in positive cash flow of £382K.

- 5d.2 Steve Cutler reported that the audit undertaken by Baker Tilly had gone very well. Bill Devitt endorsed this statement saying that the college staff had done a good job on the preparation of the accounts information. The Chair noted that a particular concern had been the dispute with Broadway Maylan; the positive financial position arising from the settlement was an excellent result.

- 5d.3 Bill Devitt noted the statements in the Members' Report on corporate governance and control, and the importance of the content in assisting the Chair of Governors and the Principal in signing-off the Accounts. He took the Committee through Baker Tilly's Audit Findings Report, noting the following key points:

- (1) The Audit was carried out in accordance with the Audit Plan presented to the Committee on 24th June 2010. No further changes were anticipated in the regulatory and financial statements, with sign-off on behalf of the Governors and the Auditors to follow a final check.
- (2) The Auditors agreed with the approach taken by the College in capitalising £843K of professional costs incurred on the Brierley Hill new build in relation to the timing of the SFA approval of the project and the securing of the funding from the bank. There had been a discussion regarding the potential write-off of £1M associated with the market value of the Brierley Hill land and the price paid, but it had been agreed to carry forward the £1.5M expenditure as part of the project cost. Bill Devitt said that he was pleased to note that the project performance would be reviewed regularly against the bank covenants to ensure that they weren't breached.
- (3) There was one issue identified during the Regulatory Review for the College to take note of related to student form record keeping.
- (4) Responding to a question from Tony Seaton regarding the impact of the government's change from RPI to CPI for future pension increases, Bill Devitt advised that this would vary considerably between colleges but that it was usually a benefit as CPI was a lower rate thereby reducing future liabilities.
- (5) The College management team had agreed to the recommendation of a review of the Fixed Asset Register.

(6) The College's financial forecasts had been reviewed and the Auditors were content with the current assumptions given the new build bank loan in place.

5d.4 Bill Devitt concluded by saying that the accounts were all in order and thanked Steve Cutler and his team for their input. The Chair thanked Bill Devitt for his positive report and noted that the Learner Support Fund issue had been picked up which tied-in with the findings of the Internal Auditors. Tony Seaton said that he had some observations on the Audit Report that he would communicate to the College.

The Committee resolved:

To recommend the Financial Statements, the External Audit Report and the associated Letters of Representation to Corporation for approval.

5e Financial Management & Control Evaluation (FMCE)

5e.1 Steve Cutler advised the Committee that the FMCE return this year would be the short form, as was submitted for 2008/2009, and that accordingly a full return would be required for 2010/2011 and was being worked on as part of preparing for inspection. He said that the College had developed an action plan identifying areas for improvement targeted at achieving an Outstanding rating in each area based on the FMCE criteria, and that the grades in each of the four areas had been assessed to be the same as for 2008/2009, with an overall grading of Good. David Whitehouse asked to see the action plan; Steve Cutler explained that it had been reviewed internally by the CEG and said that he would provide him with a copy.

The Committee resolved:

To recommend the FMCE Return to Corporation for approval.

6 Reports for Information

6a Internal Audit Progress Report

6a.1 Kevin Bruerton said that the Audit Plan for 2010/2011 had been approved at the June 2010 Audit Committee meeting. He advised that the audit visits had been condensed into 3 blocks and that this report contained the results of the first of these blocks, covering 3 reviews: Learner Destination Data, Strategic Planning & Monitoring, and Business Skills Stourbridge.

6a.2 Jon Lanes reported that, following a review of their audit methodology, BDO had changed the definitions of assurance levels used in their reports, from Good, Satisfactory and Weak to Substantial, Moderate, Limited and None. These changes had been discussed with Louise Jones and Steve Cutler. This prompted a discussion on the interpretation and application of the new assurance levels. The Chair stated that the key point was that the Committee members understood the definitions and the relative degrees of seriousness. He welcomed Steve Cutler's statement that the College would be aiming for Substantial or Moderate on all fronts. David Whitehouse asked how the High, Medium and Low priorities assigned to the audit recommendations related to the assurance levels, and Kevin Bruerton explained that there were assigned in the light of the overall audit picture.

6a.3 Jon Lanes reported that 5 Medium and 4 Low audit recommendations had been made in relation to the first 3 reviews and highlighted the overview of the work carried out and the associated conclusions in the report's Executive Summary. This was noted by the Committee. Jon Lanes then turned to the detailed report on the Block 1 Internal Audit activity and highlighted the information recorded on pages 8 and 9 related to the 5 Medium recommendations. David Whitehouse asked concerning the Management Response documented on page 10 of the report related to entering data on the Pro Monitor system. Steve Cutler explained that the system wouldn't allow drop-down menus to be implemented so the solution adopted was to issue guidance to staff to improve the consistency of the information recorded. The Chair observed

that the test would be how well the individuals understood the reasons for entering the data and that it was an important recommendation.

The Committee resolved:

To note the Internal Audit Progress Report for information.

6b Train to Gain Audit Report

- 6b.1 Steve Cutler summarised the key points contained in the Train to Gain Audit Report resulting from the audit that took place in June. He noted that a few internal control weaknesses had been identified and actions had been identified in each case. He reported that overall it had been a successful audit. Under the 'Other Action Taken' report heading, Fred Bentley asked if there had been a capability issue as that could be an important issue. The Chair agreed, noting the statement on recovery of funds on page 5 of the detailed report. Steve Cutler said that he would look into this particular aspect and report back to the Committee. The Chair asked that the item be picked up under Matters Arising at the next meeting unless there was something serious that needed to be raised beforehand.

The Committee resolved:

To note the Train to Gain Audit Report for information.

7 Are we living our Values?

- 7.1 The Chair said that this topic was perhaps less straightforward to apply in this particular Committee given its remit. The Clerk advised that the subject had resulted in a wide-ranging discussion at the recent Finance, Resources & Property Committee meeting, particularly related to visibility of Governors to the student community, and putting students first in the context of the decisions taken. Steve Cutler suggested that relevant questions for the Audit Committee were (1) 'Is the College spending its budget in the most appropriate manner?', and (2) 'Are controls being put in place that would benefit learners?'.
7.2 Fred Bentley said that when the Committee was meeting, it was important that it was focused on audit and probity and it should not stray from that agenda. He added that if the Committee fulfilled its remit successfully then it would be supporting the overall Corporation agenda and its values. Kevin Bruerton said that the Committee's agenda was not purely financial, as evidenced by the scope of the Internal Audit remit. The Chair agreed and said that it was important to look at the values as a whole.

8 Any Other Business

- 8.1 Kevin Bruerton asked about the holding of a meeting with Committee members without the College management present. Fred Bentley advised that this was normal for the Committee meeting in the spring. The Chair confirmed that this was an opportunity for robust challenge and debate, and would take place half an hour prior to the next meeting in March.
8.2 The Clerk asked Committee members to provide feedback on the approach trialled to use laptops during the meeting rather than full sets of paper reports. The Chair said that he preferred to continue to use hard copies of meeting material and that he didn't like the impression of a training course session given by the bank of laptops in use. Fred Bentley said that he didn't want another set of login credentials and that from a practical perspective he hadn't always found it easy to look at the large reports during the meeting, particularly when needing to refer to other documents. The Clerk acknowledged the feedback, noting that key criteria were ease of use and effectiveness, and that the feedback obtained from all the governors would be assessed in January.

9 Dates of Future Meetings

Thursday 10th March 2011 at 16:30
Thursday 16th June 2011 at 16:30

The meeting closed at 18:25.

Signed: _____

Date: _____

Chairman