



**WEST NOTTINGHAMSHIRE COLLEGE
CORPORATION BOARD
AUDIT COMMITTEE**

Minutes of the meeting of the Audit Committee held in the Boardroom at the Derby Road site on Thursday, 23 June 2011 at 5.00 p.m.

COMMITTEE MEMBERS PRESENT: Chris Bodger
Nevil Croston, Chair
David Overton
Nigel Quinton

ALSO IN ATTENDANCE: Maxine Bagshaw, Clerk to the Corporation
Andrew Martin, Director of Finance
Tom Stevens, Executive Director: Capital Projects & Estates
Asha Khemka, Principal & Chief Executive
Colin Marshall, KPMG
Karl Tiegh, KPMG
Ian Falconer, Grant Thornton
Louise Tweedie, RSM Tenon
Patrick Green, RSM Tenon

	ACTION by whom	DATE by when
It was noted that the Auditors had not wanted to meet with the Committee without managers present.		
11.10 <u>DECLARATION OF INTEREST IN ANY ITEMS ON THE AGENDA</u>		
The Chair reminded members to declare any interests that they may have on the agenda. No interests were declared.		
11.11 <u>WELCOME, INTRODUCTIONS & APOLOGIES FOR ABSENCE</u>		
Apologies for absence were received from Diana Gilhespy. Louise Tweedie and Patrick Green from RSM Tenon were welcomed to their first meeting.		
11.12 <u>MINUTES OF THE MEETING HELD ON 17 FEBRUARY 2011</u>		
AGREED: to approve the minutes of the meeting held on 17 February 2011.	Chair	23 June 2011
11.13 <u>MATTERS ARISING AND ACTION PROGRESS REPORT</u>		
Members agreed that the Action Progress Report was an accurate reflection of ongoing monitoring arrangements. One matter was discussed:		

Signed : _____ Chair

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Page 4 – the College has not yet completed an evaluation process of the construction pilot scheme as the whole project is still being implemented. A report will be presented at the next meeting.

ACTION by whom	DATE by when
Dir. Fin.	6 Oct 2011

11.14 INTERNAL AUDIT REPORTS

This item was introduced by Grant Thornton.

1. Debt Collection

Members` attention was drawn to the data on page 11 where it was noted that the scope of the review focused on a number of sub-risks, these were that:

- The College may not issue tuition fee invoices in a timely manner resulting in a failure to collect debts properly and cash flow issues.
- The College may not operate a clear and efficient framework (with appropriate steps and management information) for collecting debts resulting in increased bad debts and a negative impact on its financial position.
- The College may not operate robust controls over the authorisation and processing of supplier payments resulting in payments for goods or services that the College may not have received in full or are of an inappropriate quality.
- The College may not process student fees and creditor payments in an accurate and timely manner resulting in inaccurate accounting and reports.

It was noted that Auditors had provided a clean opinion, both in relation to the design effectiveness and operating effectiveness and had found the College to have positive arrangements. Members` attention was drawn to page 12 and the one medium recommendation made. It was noted that management have provided a positive response to the recommendation which relates to managing FE debts. It was noted that the Finance Team does not currently receive assurances that all fees owed by individual learners have been paid, or are being collected via agreed instalment plans. For HE students, a system has been developed to create ledger codes for each student, though nothing similar exists for the College`s FE learners. The College, therefore, may not be obtaining all learner owed fees that are due.

Some very positive aspects of the College's debt management systems were noted at paragraph 1.5 page 12.

Members questioned whether the fraud discovered in the 2010/11 academic year had been reviewed again as part of this audit work. They were advised that it had not been revisited and that the integration of the finance and ILR records will address the process deficiencies which led to the fraud in the first place. Members generally discussed the use of purchasing orders and were

Signed : _____Chair

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advised that when compared with other colleges, WNC processes are very good. Members were happy to receive Internal Auditors assurances on this point.

AGREED: to note the internal report provided.

2. Risk Management

Members were reminded that this is a review which is carried out on an annual basis. The scope of the audit was noted at page 23 with the risk identified that the College may not have undertaken appropriate and regular monitoring of its key strategic risks, resulting in a failure of the Corporation and management to fully understand and take account of the major issues that could impact upon the delivery of strategic objectives. Auditors explained that the review focused on risk management 'output' as they were very confident of the systems following previous reviews. They gave the opinion that the College has very well embedded risk systems.

Members` attention was drawn to page 28 and the risk matrix compiled by Auditors. They were advised that this gives assurance that arrangements in College work as they are intended to.

AGREED: to note the content of the report.

3. Internal Audit Follow Up

Internal Auditors introduced this item and explained that the follow up is a very important aspect of the annual cycle of review. In general they found that the process of monitoring was good and was well embedded, providing a robust system. Members` attention was drawn to page 31 and the scope of the review which considered two key areas:

- The effectiveness of the College's process for the reporting to the Audit Committee progress on implementing of implications.
- The accuracy and completeness of the resulting monitoring reports.

It was confirmed that a clean opinion had been given for both design effectiveness and overall effectiveness.

AGREED: to note the content of the report.

4. Vision Apprentices Quality Assurance Framework

Internal Auditors introduced this item and reminded members that Vision Apprentices was a new initiative for the College and had, as a consequence, been subject to detailed review. Members` attention was drawn to the background detail on page 39.

Signed : _____ Chair

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Members were advised that a clean audit opinion has been given for both the design effectiveness and the operating effectiveness, and that the basis of the opinion is:

- The College delivers all Vision Apprentices teaching through its Schools and therefore retains full control over content and quality.
- Teaching and learning activities are driven by the College's Teaching and Learning Strategy. This provides guidance on how to achieve the required quality of teaching and the quality assurances are based on this strategy.
- The College's teaching and learning quality arrangements address each of the different types of learning activity in use through its School based assessment process, including those used by Vision Apprentices.
- The outcomes of the teaching and learning quality assurance process are reported to the Quality and Standards Committee at regular intervals. These reports include Vision Apprentices activity, although it is not explicitly identified.
- The quality of ancillary activities undertaken at the employers' premises (including health & safety) are assessed when the College first contracts with them, as well as at regular intervals through monitoring visits.
- Employer contributions to the learning experience, (ie, 'on the job training', forms an integral part of the course are monitored with feedback mechanisms in place to communicate issues back to Vision Apprentices, if they are deemed to be in need of improvement.
- Learning Mentors obtain learner feedback regularly through entering discussions that consider all aspects of the learners programme, including employers, procedures (eg, taking annual leave).

Auditors felt that the Quality Assurance Framework is embedded and fully operational.

AGREED: to note the content of the report.

5. Draft End of Year Annual Report 2010/11

Auditors introduced this item and confirmed that the final report would be presented at the next meeting. They confirmed that the report had been presented in the same format as that used for a number of years, such formats being compliant with the current audit code of practice, and the proposed joint audit code of practice from the SFA. Members' attention was drawn to the following:

- Paragraph 1.4 – summary of internal audit coverage.
- Paragraph 2.1 - auditors overall assurance.
- Paragraph 2.2 – opinion – auditors indicated that they would be surprised if anything would change between the date of this

ACTION by whom	DATE by when
Grant Thornton	6 Oct 2011

Signed : _____ Chair

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- meeting and 31 July 2011, which would alter the clean opinion given.
- Paragraph 2.3 – operational assurance
 - Paragraph 2.4 – management action on recommendations.

Members` attention was drawn to the `outcome of review` summary table at page 53. One particular point was raised regarding the high recommendation made. Internal Auditors indicated that it would usually be the case that a high recommendation in any year would lead to a qualification in the annual report, but that in their opinion, the high recommendation made in relation to curriculum planning was not considered sufficient enough to lead to a qualification. Whilst it was an important recommendation, it was relating to an improvement and not a control issue and therefore there are no caveats to the annual report.

Members also discussed the special investigation of fraud and the College`s response. Auditors confirmed that the issues identified were small, isolated, properly investigated, and therefore, in their opinion, were not considered material. All recommendations have been accepted and implemented regarding this investigation and in the Auditors view, have been sufficiently dealt with at the time, and subsequently.

Members discussed a number of issues and debated the value for money grading of `adequate`. They questioned whether there was any benchmarking data that could be used to assist a better understanding of this area and what needed to be done to improve. Auditors indicated that unfortunately there was no benchmarking data at this time, and in fact audit firms have been working within very difficult LSC terminology for some time, with an acknowledged lack of guidance. Auditors indicated that the firm`s policy is that everything is deemed to be good unless a high priority recommendation has been made in an area. It was, however, noted that the new joint code of practice does not require these category definitions and therefore this may be the last time that colleges see these distinctions.

Auditors indicated that the new Joint Audit Code is expected to be published before the 31 July 2011. Of real importance to the Committee and colleges, is the fact that it is intended that the joint code will have retrospect application. Members agreed that at the next meeting they would benefit from some training on this topic.

Members were happy with the draft end of year report presented. It was noted that the Director of Finance and Internal Auditors would now have a final meeting to review and conclude, and the final document will be presented to this Committee at the next meeting and thereafter will be escalated to the Board for consideration.

ACTION by whom	DATE by when
Auditors	6 Oct 2011
Internal Auditors	6 Oct 2011

Signed : _____ Chair

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(Ian Falconer left the meeting at 5.30 pm).

**11.15 AUDIT MONITORING:
1) COMPOSITE COLLEGE RECOMMENDATIONS REPORT,
2) PROGRESS AGAINST RECOMMENDATIONS AND
3) REASONS FOR NON-IMPLEMENTATION OF
OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS**

The Director for Communications and Marketing introduced these reports, it was agreed that items 1 – 3 would be taken as a whole.

A number of points were raised in relation to these standing monitoring reports:

- All IT recommendations made in the 2008/9 year have now been addressed and will no longer appear on the monitoring reports.
- Page 77 – from the 2009/10 recommendations, there are currently three actions to be implemented, with two outstanding, none of which are high risk.
- From the 2010/11 recommendations, there are currently two actions to be implemented, both of which are outstanding.
- Page 78 – work is ongoing regarding the four items detailed, with a move towards implementation. Members requested that, at the next meeting, the estimated completion date for items not implemented, following internal audit recommendations, be provided. Members all agreed that they would like to see them cleared off as a matter of urgency.

On a general point, members all agreed that the IT presentation given at the strategy residential event was particularly helpful and reassuring, when taken in the context of the fact that some IT recommendations had been outstanding for such a long period of time.

AGREED: to note the content of the reports.

**11.16 INTERNAL AUDIT STRATEGIC PLAN AND AUDIT NEEDS
ASSESSMENT 2011/12**

RSM Tenon introduced their report and confirmed that it was based upon a three-year plan. It was acknowledged that the report is based upon the current audit code requirements, and that if the new code is introduced as planned on 31 July 2011, then the document will need to be revisited. Auditors explained the steps taken to create the plan, which included attendance at Executive meetings, sector specific identified issues, inclusion of regulatory issues and audit code requirement issues.

Members` attention was drawn to page 91 and the detailed plan proposed. Auditors confirmed that the plan uses a risk based analysis and takes into account the work that the Company does

ACTION by whom	DATE by when
Director C & M	6 Oct 2011

Signed : _____ Chair

Date:

ACTION by whom	DATE by when

with 200 colleges. This gives them a general view of sector issues and these, when considered alongside specific issues highlighted by the College either through meetings or the risk register, produces a robust composite approach. It was acknowledged that Internal Auditors use the College's risk register as a key document in the planning process.

Members were advised that Internal Auditors have strong internal review processes in place to ensure consistency between audit arrangements and that prior to its presentation to this Committee, the draft plan will have been reviewed by at least three people at RSM Tenon. It was noted that the plan is prepared in conjunction with the Executive Team and that the plan is the first step in ongoing dialogue with the exact audit review process still to be agreed between Auditors and the Senior Management Team before each visit. These discussions will lead to an agreed 'scope' with specific detail of the key areas to assess.

Members reviewed the proposed areas for audit, and suggested a number of additional considerations:

- Members felt the current restructuring exercise, and particularly personnel issues may need to be included at some stage within the plan to assess the impact of the process. It was acknowledged that if the audit review is undertaken too early, then the College will only be told what it knows, and that any review should allow some time for the College to re-engage and to re-motivate staff.
- Quality and financial stability of sub-contractors was felt to be an important consideration for members and was a critical issue at such difficult economic times. Internal Auditors confirmed that they would pick this up as part of the employer responsive provision review scheduled to take place between 19 and 23 March 2012.

One issue raised in relation to the target Audit Committee dates was that there was no March 2012 Audit Committee as detailed in the plan. The Clerk to the Corporation confirmed that the meeting closest to that date was 23 February 2012.

AGREED: to approve the Internal Audit Strategic Plan & Audit Needs Assessment for 2011/12.

11.17 KPMG 2011/12 PLANNING MEMORANDUM

KPMG introduced this report and reminded members of the scope of the audit, the risks to be addressed and issues common in the sector. Members' attention was drawn to the following:

- Page 97 – confirmation of independence. It was noted that KPMG conforms to the highest governance standards at all times, and will ensure that any additional services are

Signed : _____ Chair

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approved by the Audit Committee to ensure transparency. It was noted that in addition to the audit of the financial statements, KPMG has completed a TPA return at a cost of £1040.

- Page 98 – this gives detail of the audit planning approach, it was noted that part one has been completed.
- Page 99 – audit materiality limits – an indicative level of group materiality for the end of 31 July 2011 is £450k based on the projected out turn for the year. Individual materiality levels will be set for the College and each subsidiary company.
- Page 101 – section 3 – this sets out the known and identified risks and includes the areas of financial performance, impact of the spending review, taxation submissions, pensions liability, corporate governance, fraud, apprenticeships and capital. Members were advised that performance trends in the 2010/11 year will influence the areas of audit. It was acknowledged that costs are well controlled, fee income is higher than expected, but for the 16-18 provision where there is significant under performance in relation to apprentices, although an upward trend is seen. Auditors confirmed that they would review the College’s overall financial position at the year end as part of the review of the financial statements, and in particular they would consider the College’s final out turn compared to the forecast out turn at 31 March 2011.
- Members` attention was drawn to page 102 and the income recognition table, it was confirmed that this data has been obtained directly from the MIS system, and that within the sector, Auditors are seeing a pattern of under achievement against allocation of 16-18 learners.
- It was believed that allocations generally, for the 2011/12 year, have been good, and that the challenge will be attracting the activity at lower funding rates rather than low allocations. It was acknowledged that the funding bodies complete quarterly reviews, so there is a mechanism in place to redistribute allocations if it is clear that some colleges will not achieve targets. Auditors confirmed that allocations are now a lot more mechanistic and very much data driven rather than the previous regime where variance of allocations could be based upon meetings. Members were advised that the SFA is much more responsive than previously seen and is happy to make contract re-allocations within year.
- Page 103 – it was noted again that the treatment of pensions will be reviewed. It was acknowledged that this is an area to look at and discuss but it was believed by Auditors that the view would not be changed at this stage.
- Page 104 – Capital investment - given the College’s planned developments this will be a real focus for 2011/12.
- Page 107 – Auditors detailed their fees for 2010/11, this is a small increase on the previous year.
- Page 108 – timeline and deliverables. In terms of provision of information, it was agreed that the Director of Finance would

Signed : _____Chair

Date:

provide David Overton with a copy of the ISA 240 self-assessment document.

AGREED: to approve the KPMG 2010/11 Planning Memorandum.

11.18 SECTOR UPDATE

KPMG took the opportunity to provide a short sector update. It was acknowledged that general turbulence in the sector has been ongoing for some considerable time now with audit firms and colleges waiting for guidance. Without this guidance, audit firms and colleges are operating in a state of flux.

Members were advised that some colleges will be subject to audit in the new academic year. Members were informed that approximately 80 colleges have been selected for FFA review, and that notification to these colleges will come out in July 2011. For these colleges, some guidance will be available.

In terms of allocations for 2011/12, it was believed that most colleges have received good allocations for the next academic year, but that thereafter (year 2012/13 plus), allocations will depend upon future funding changes. Members` attention was drawn to page 112 and the challenge of some colleges remaining as a going concern and liquidity risks.

AGREED: to note the update provided.

11.19 RISK MANAGEMENT

1. Annual Report on Risk Management 2010/11

The Director of Finance introduced this item. It was acknowledged that the vast majority of information had been covered in Grant Thornton's annual report. The following was specifically noted:

- This is the fourth full year of the implementation of revised arrangements for risk management. The intention of these arrangements was to better embed a risk management culture across the College and to ensure the ownership for key risk lies at Executive and Board level.
- The first phase of the risk register was approved by the Audit Committee in June 2010 and subsequently by the Board in July 2010.
- The risk register is constructed in two phases throughout the year, the first phase following an assessment of risks associated with the business plan and subsequently being an assessment of risks from the self-assessment and operational delivery.

ACTION by whom	DATE by when
Dir. Fin.	June 2011

Signed : _____Chair

Date:

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<ul style="list-style-type: none"> • Changes to the risk environment 2011/12 – this has been a turbulent year in terms of the College’s risk environment. A new Government, plus reductions in public spending with fundamental changes proposed for the education sector, has meant that a number of risks have either been added to the risk register or reprioritised. Additions were: <ul style="list-style-type: none"> i. Refocus on the employer responsive provisions, splitting out 16-18 apprenticeships and adult employer related learning. ii. The external environment, reflecting the risk of political and structural changes on the College’s external influences and position within the sector. iii. Property strategy – following the College’s decision to pursue major investment in its Estate to deliver world-class facilities for the community. iv. Financial stability, linked to the twin challenges of public spending reductions and the need to generate reserves for investment in the property strategy and servicing of commercial debt. <p>It was noted that the College’s subsidiary companies, Skilldrive, Safety Plus and Vision Apprentices have developed risk registers that have been approved by the respective Company Boards, and that there are no risk issues that members need to be specifically made aware of for the subsidiary companies at this stage.</p> <p>AGREED: to note the Annual Report on Risk Activity for 2010/11.</p> <p>2. Risk Management Strategy & Register 2011/12</p> <p>The Director of Communications & Marketing introduced this item and confirmed that the strategy remains largely unchanged from that approved by the Committee for 2010/11 and follows clean internal audit opinion and review during the year. Members’ attention was drawn to the following documents, which form the basis of strategy review:</p> <ul style="list-style-type: none"> a) the College’s Risk Management Policy and b) the Structure & Framework. <p>Members’ attention was drawn to page 130 and the review of risk appetite by College area. Members questioned whether the College was able to quantify the risk category, eg, 1-5? A suggestion made, was that the categorisation could be based upon the potential value of the risk involved. Members agreed that this may be a useful development for the next academic year. It was agreed that the Director of Finance and the Director of Communications and Marketing would review outside the meeting and would receive from Nigel Quinton, examples that he has seen in other organisations.</p>		
	Dir. Fin. / Director C&M	July 2011

Signed : _____ Chair

Date:

ACTION by whom	DATE by when
Chair	23 June 2011

The Director of Communications & Marketing indicated that the register seen at page 140 onwards should come as no surprise to the Committee. Priority areas for the new academic year were detailed as follows:

- The focus for September is on the process of re-energising staff and mitigating the impact of the restructuring process.
- Employer responsive is an area that is carrying significant risk regarding growth opportunities and is to be monitored closely and regularly.
- Maintaining the reputation of the College as an outstanding College presents increasing challenges, given the growth in this area.

Members were advised that the pattern of red shading at page 140 was representative of the sector environment generally rather than College specific issues. It was acknowledged that the register is reviewed by the Executive on at least a termly basis. Members` attention was drawn to the changes detailed in yellow on the plan, they were happy to accept explanation of the changes given.

AGREED: to approve the Risk Management Strategy and Register for 2011/12.

11.20 COMMITTEE WORK PLAN 2011/12

The Clerk to the Corporation introduced this item and confirmed that the workplan was proposed as a framework for agenda setting. It was acknowledged, as always, that there is the flexibility to include additional items as they are required throughout the year.

AGREED: to approve the Committee Workplan 2011/12.

11.21 AUDIT SERVICE SECTOR UPDATE

It was accepted that the update had been rolled into KPMG's discussions regarding the appendices of the planning memorandum earlier in the meeting.

(Auditors left the meeting at 6.37 pm).

11.22 CONFIDENTIAL MINUTES OF THE MEETING HELD ON 17 FEBRUARY 2011 AND ANY MATTERS ARISING

AGREED: to approve the confidential minutes of the meeting held on 17 February 2011.

There were no matters arising.

Signed : _____Chair

Date:

ACTION by whom	DATE by when

11.23 AOB

There were no items of additional business.

11.24 DATE OF NEXT MEETING

The Clerk to the Corporation reminded members that the next meeting was scheduled for 6 October 2011 at 5.00 pm.

The meeting concluded at 6.40 pm.

Maxine Bagshaw, Clerk to the Corporation

Signed : _____Chair

Date: