



**WEST NOTTINGHAMSHIRE COLLEGE
CORPORATION BOARD**

Minutes of the Audit Committee meeting held in the Boardroom at the Derby Road site on Thursday, 10 November 2011 at 5.00 pm.

BOARD MEMBERS PRESENT: Chris Bodger
Nevil Croston (Chair)
David Overton

ALSO IN ATTENDANCE: Maxine Bagshaw, Clerk to the Corporation
Andrew Martin, Director of Finance (from 5.20 pm)
Louise Knott, Director Communications and Marketing
Andrew Argyle, KPMG (from 5.35 pm)
Karl Teigh, KPMG
Patrick Green, RSM Tenon
Tom Stevens (until 6.15 pm)

It was noted that Auditors had not wanted to meet with the Committee without managers present.

		ACTION by whom	DATE by when
11.36	<u>DECLARATION OF INTEREST IN ANY ITEMS ON THE AGENDA</u> The Chair reminded members to declare any interests that they may have on any items on the agenda. No interests were declared.		
11.37	<u>WELCOME INTRODUCTIONS AND APOLOGIES FOR ABSENCE</u> Apologies for absence were received from Asha Khemka, Diana Gilhespy and Louise Tweedie, RSM Tenon. It was noted that Andrew Martin and Andrew Argyle were running late and would be joining the meeting as soon as they were able.		
11.38	<u>MINUTES OF THE MEETING HELD ON 6 OCTOBER 2011</u> AGREED: to approve the minutes of the meeting held on 6 October 2011.		
11.39	<u>MATTERS ARISING AND ACTION PROGRESS REPORT</u> It was agreed that there were no matters arising and the action progress report was noted.		
11.40	<u>INTERNAL AUDIT PROGRESS REPORT 2011/12</u> This item was introduced by RSM Tenon. They confirmed that the report at this stage of the year was quite brief as the team had not yet had a chance to undertake any on site work. He confirmed that the team had visited College on a number of occasions to plan		

Signed : _____ Chair

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activity and that the first site work would be undertaken in the week commencing 21 November 2011 with a focus on Risk Management and Corporate Governance. The dates for planned attendance were noted on page 3. The Committee was advised that all of these dates have been cross referenced with subsequent Audit Committee meetings. Members` attention was drawn to the client briefings at page 4 onwards, and of particular interest was the changes proposed regarding the Adult Skills budget funding.

AGREED: to note the content of the report.

11.41 AUDIT COMMITTEE ANNUAL REPORT 2010/11 - DRAFT

The Clerk to the Corporation introduced this item and confirmed that the format was similar to that utilised in previous academic years, the following was drawn to members` attention:

- Page 3 – this provides a background to the preparation of the report and provides a summary of Committee Membership, Terms of Reference and details meetings dates for the year.
- Page 5 – provides a summary of internal audit work undertaken by Grant Thornton and the assurances provided as part of this work.
- Page 6 – provides a summary of the overall opinion provided in the internal audit annual report for the 2010/11 year.
- Page 7 – provides a summary of the review of Management Letter from the financial statement auditors, this is a substantive item to be taken later in the meeting.
- Page 8 – provides a summary of fees and additional audit services undertaken and also includes a conclusion with recommendation from this Committee, in draft, to the Board.

Members reviewed the document in detail and agreed that it was an accurate summary of the work of this Committee for the 2010/11 year.

AGREED to:

- (i) Approve the Audit Committee Annual Report 2010/11 and
- (ii) Recommend that this be presented to the Board for information at its next meeting.

Chair

24 Nov
2011

11.42 RISK MANAGEMENT

The Director for Communications and Marketing introduced this item and confirmed that it was a relatively brief report, given the fact that the significant changes had been reviewed and explained at the previous Committee meeting. She confirmed that the Executive has met on the 31 October to consider the risk register and that, in light of the comprehensive review of the register undertaken in September, they recommended no changes to the risk priorities and

Signed : _____Chair

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only small additions to reflect changes to the conditions of the College environment.

She indicated that some minor changes have been made to the risks contained within the register. Members` attention was drawn to these highlighted in yellow on the attached register. The following was specifically drawn to members` attention:

- Paragraph 3 – the change proposed to the risk register as a result of the October 2011 review are relatively minor and focus on amendments to the risks and existing controls.
- Risk 4 – the External Environment – the Board was advised at its last meeting that there is a potential impact of reclassification of colleges as public sector. The proposed changes are subject to review and significant lobbying by the AoC. Until such time as the outcome is known, this has been added as an additional risk under this heading.
- Risk 5 – Student Recruitment – Leeds Metropolitan University have communicated their desire to withdraw from partnership arrangements with any other provider except those within their own region. Work has commenced on finding an alternative provider, however, should this search be unsuccessful, then it could effect the College`s recruitment against HE targets, and as such has been added as a risk.
- Members were advised that the Management Team has met with Derby University recently and had very positive discussions. The College is exploring its options, albeit in an environment where a lot of universities are being cautious about FE partnerships, particularly in response to the need to ‘protect their own’ in a very difficult environment.
- Risk 10 – Success Rates – risks have been updated to reflect the actual College picture based on 2010/11 success rates.

AGREED: to note the Risk Management update.

(Andrew Martin joined the meeting at 5.20 pm).

11.43 2010/11 DRAFT MEMBERS REPORT AND DRAFT FINANCIAL STATEMENTS

The Director of Finance introduced this item and confirmed that the Members Report and draft Financial Statements are prepared to the end of the year 31 July 2011. He confirmed that they are prepared in accordance with model accounts and recommended practices. He confirmed that the report looks at the College`s internal control mechanisms and the risk management arrangements. He drew members attention` to the main opinions and disclosures detailed from page 14 onwards.

Members reviewed the report in detail and the following was brought to their attention:

Signed : _____Chair

Date:

ACTION by whom	DATE by when
Director Finance	Dec 2011

- Page 17 – this details of who has served on the Board for the 2010/11 academic year.
- Page 28 – provides draft financial statements. It was noted that the accounts presented relate to the Group and are therefore consolidated. Of particular note was the FRS15 change relating to the restatement of College assets and the impact that this has had upon the accounts.
- The results for 2010/11 were better than anticipated and an improved position on 2009/10.
- Within income and expenditure there is an exceptional cost of £363k regarding restructuring costs.
- Page 28 provides a reconciliation of historic and operating performance. The College has a historical cost surplus for the year excluding FRS17 and exceptional adjustments at £3.039million. It was accepted that this was a very good operating position to start the 2011/12 year with and that this will have a very positive impact upon the College’s borrowing requirement for its new build plans.
- Net current asset position is still positive, this is better than expected and as a result of slower payments being made in relation to the accommodation strategy and a better out turn position for 2010/11.
- Cash flow statement remains strong.
- Page 32 provides a summary of the notes to the accounts.

Members, having reviewed the document in detail, all agreed that it was a very good result for the 2010/11 year. They were happy to approve the draft Members Report and draft Financial Statements and recommend that they be approved by the Board.

AGREED: to

- (i) approve the 2010/11 draft Members Report and draft Financial Statements, and
- (ii) recommend that they be presented to the Board for final approval.

11.44 INTERNAL AUDIT ANNUAL REPORT 2010/11

The Director of Finance introduced this item and confirmed that the draft document prepared by Grant Thornton had been presented to this Committee at its June 2011 meeting. Members were advised that no changes have been made since this date and that what is presented to day is the final report. It was acknowledged by Committee members that Internal Auditors provided a clean opinion for the year in so far as the wording allows them to do so.

AGREED: to note the content of the Internal Annual Report for 2010/11.

Signed : _____Chair

Date:

11.45 ILR AUDIT

The Director of Finance provided a verbal report regarding this item and confirmed that the College had been chosen to be subject to an ILR Audit (funding audit), regarding its student records and that this work has recently been completed. He indicated that the auditors, (RSM Tenon) had looked at 16-18 provision, adult learner responsive, EMA programme and adult learner grant programmes (ALG).

The Director of Finance indicated that the College had not yet received the Management Letter from Auditors, but that the audit having being carried out there were certain issues raised at the feedback meeting. He drew the following to members` attention:

- Of twenty withdrawals sampled, three had been found to have incorrect end dates. As a result, the College was asked to do a 100% check of these withdrawals. The area was re-audited using an alternative sample and Auditors were then satisfied regarding accuracy. The audit process highlighted the fact that the College has some challenges to address regarding the consistency of utilisation of electronic registers. It was noted that the discrepancies found did not effect funding in any way.
- Learners on their first level 2 and level 3 course are entitled to national fee remission. This entitlement to fee remission is by way of self-certification, requiring a signature at both a top and bottom box on the College's documentation. On sampling, an evidential issue was identified and that in a number of cases because the signature was not in both the top and bottom box, the students had been found not to be entitled to remission. As a consequence of the audit, the College has now changed its enrolment form so that only one signature is required. It was explained that the impact of the failure to properly adhere to the evidence system in place was approximately £29k.
- The College`s ESOL programme is delivered in a flexible way and utilises unlisted qualifications. To satisfy audit requirements the College has to demonstrate that the number of hours attended by students actually matches the number of hours claimed for. The College believes that the usual number of hours for an ESOL qualification would be 400 to 500, but that on audit the College could only evidence an average of 159 guided learning hours. It was explained that the ESOL qualification is delivered in a number of drop in centres and that it is believed that registers were not collecting the correct data. As a consequence of this audit issue, there has been negative impact of £59k. One matter raised by the Director of Finance is the fact that if the guided learning hours are correct at 159, then it raises the potential issue of viability of these programmes. It was explained that College tutors for the ESOL programme may be keeping manual registers, but that this data is not being input into the College system and therefore the evidence is being lost.

ACTION by whom	DATE by when

Signed : _____Chair

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By way of summary, the Director of Finance explained that the key issue for the College to address is how staff are utilising the electronic registers. It was explained that a lot could be done to improve the current system and bring about consistency of use. He indicated that the College has had to make a number of adjustments as a result of the audit and that these were then subject to re-sampling and re-testing. As a result of the audit work, the College was asked to adjust its ALR funding negatively by £70-£80k. This is, however, offset by the fact that the College over delivered by approximately £200k, so there is unlikely to be any funding consequences. It was confirmed that the adjustment may have a minor negative impact in relation to the allocations awarded for 2012/13, although within the context of overall College performance, this is a matter that can be easily managed. In terms of audit process, the feedback from Auditors was that the findings were reasonable and that the problems regarding the use of electronic registers is a common issue within the sector. The Director of Finance confirmed that the audit work had shone a light on areas for the College to address and this will be part of action plans.

In terms of finalising the ILR audit, the Director of Finance confirmed that the College will receive a letter within the next 5-7 days and the Executive Team will then draft management's response. Both these documents will be presented to the Audit Committee together with an action plan to address issues raised at the meeting on 23 February 2012.

AGREED: to note the update provided.

11.46 ANTI FRAUD AND CORRUPTION REPORT 2010/11

The Director of Finance introduced this item and reminded members that this is the second year that the Management Team have presented this report. He confirmed that there was one incident of fraud reported in the 2009/10 year and that there were no incidents to report in the 2010/11 year.

The Director of Finance indicated that, since the end of the financial year, the College has had one case of suspected fraud or irregularity reported through the College's whistle blowing procedure. This incident involved the certification of learner outcomes within first aid provision. He indicated that the allegation had been investigated and was not upheld, although the investigating officer recommended a curriculum led review of process and procedures. He advised that the finding was subject to an appeal to the Chair of the Board. The Clerk to the Corporation was able to confirm that the appeal hearing had taken place this week, and that the Chair was satisfied that whilst there were poor practices in place, there were no issues of fraud regarding the allegation made.

ACTION by whom	DATE by when
Director Finance	23 Feb 2012

Signed : _____ Chair

Date:

The Director of Finance indicated that given the poor practices found, this Committee may wish to have some internal audit time directed at a review in this area. He confirmed that, historically, the College has not really undertaken internal audit work regarding curriculum delivery and accreditation and that poor practices could potentially have significant reputational consequences. By way of clarification, he confirmed that the College has a central examination system, but that some schools of learning also have the ability to undertake their own accreditation. He explained that the College has, for some time, been considering bringing all Schools of Learning back to central examination and that, if done in this way, there would be a better segregation of duties and consistency. Members agreed that the inconsistencies found in relation to the first aid provision led them to believe that checks are warranted on other independent school accreditation processes. They requested that the Executive Team put in place spot checks by the Examination Team on the Schools of Learning who do their own accreditation. It was confirmed that further down the process, Internal Auditors should be asked to do a piece of work which looks at the Examination Team too.

AGREED: to note the content of the Anti Fraud and Corruption Report 2010/11.

11.47 FMCE

The Director of Finance introduced this item and confirmed that the College has, in the last two previous years, only had to submit a 'short' return following its OFSTED grading of outstanding. He confirmed that a short return was only permissible for two years following its inspection and that, as a consequence, the College this year has to submit a full return. He drew members' attention to the detail of the questionnaire completed, which includes self-assessment of a number of different areas. He confirmed that the starting point of this substantive review had been that prepared for inspection, albeit that the questions had changed significantly since the last full report, and therefore this is a body of new work.

Members' attention was drawn to the overall summary grades at page 2. It was believed that the College's financial management control arrangements still remain outstanding overall. It was explained that the internal control systems have been moved down to 'good', this is particularly as a response to the electronic register issues identified in the ILR audit. Members' attention was drawn to the recommended improvement actions. Of particular note was the suggested publication of financial statements on the College's website. It was explained that this is fairly common practice within the sector and will prevent a number of requests for this data under the Freedom of Information Act. It was agreed that the Clerk to the Corporation would publish the financial information on the College's website in January 2012.

ACTION by whom	DATE by when
Director Finance	Nov 2011
Clerk	Jan 2012

Signed : _____ Chair

Date:

ACTION by whom	DATE by when
<p>Following this internal review, the Director of Finance explained that he had identified some high risk areas, one of which was sub-contractor arrangements – he confirmed that changes in the College systems have improved over the last three years, but that this is still a focus for monitoring.</p> <p>He confirmed that he felt confident that the College was able to give a sound and rounded response to the questions raised. He explained that once approved by this Committee the document will be submitted to the SFA.</p> <p>Members were satisfied that a comprehensive assessment process had been undertaken, and were happy to approve the document for submission to the SFA.</p> <p>AGREED: to approve the FMCE responses.</p>	
<p>11.48 <u>BRIBERY ACT POLICY</u></p>	
<p>The Director of Finance introduced this item and confirmed that it is a legal requirement that the College has a Bribery Act Policy in place. He confirmed that the document presented for review was sector standard and includes some supporting procedures which underpin it. Members were happy to support the introduction of a Bribery Act Policy, it was agreed that a training session should be provided to the Board by either the Chair of the Audit Committee or External Auditors. The Clerk to the Corporation was requested to try and arrange this for the December Board meeting.</p> <p>AGREED: to approve the Bribery Act Policy.</p>	<p>Clerk 8 Dec 2011</p>
<p>11.49 <u>BUSINESS CONTINUITY AND INCIDENT MANAGEMENT PLAN - A REVIEW</u></p>	
<p>The Director of Finance introduced this item and confirmed that the plan is a significant document that has been reviewed as part of annual monitoring arrangements. He confirmed that there were no significant changes to the policy itself, but that the document had been updated to reflect changes in Staff. Members were happy with the identified changes. One particular issue raised was the fact that there are two building contractors named on the approved contractor list who have now gone into liquidation. The Director of Finance confirmed that these names would be removed.</p> <p>AGREED: to approve the Business Continuity and Incident Management Plan.</p>	
<p>11.50 <u>2010/11 FINANCIAL STATEMENT AUDIT MANAGEMENT LETTER</u></p>	
<p>This report was presented by KPMG. They confirmed that the audit had been completed and that they were issuing a clear audit</p>	

Signed : _____ Chair

Date:

ACTION by whom	DATE by when

opinion. In terms of audit processes, they confirmed that it was smoother than in the previous year and that this was despite the fact that a significant member of the finance team was actually in Australia. In terms of key issues to note, members were advised that the key change in accounting treatment is the reversal of the fixed asset revaluation process. The College is now looking at historic valuation rather than requiring the regular revaluations which were time consuming, costly and it was felt served no purpose.

Members were asked to consider the report on a page by page basis and the following was noted:

- Scope – Auditors have looked at both the College and three subsidiaries.
- Page 2 – explains the purpose of the audit. Members’ attention was drawn to the fact that the Auditors have undertaken some additional work in year, but Auditors do not believe that this has impacted upon their independence.
- Section 2 identifies key highlights.
- Page 4 shows movement in relation to income and expenditure, there have been some significant swings in income and costs over the year, particularly staff costs increases which were influenced by restructuring costs. It was acknowledged that these restructuring costs will lead to savings in future years.
- Page 5 – second table – Members were asked to note that a significant amount of College income comes from franchise activities (£8.2million). This is an increase on the previous year.

(Tom Stevens left the meeting at 6.15 pm).

- The College undertakes a significant amount of its delivery through apprentices, with significant number of partners identified. Auditors were happy that the College is managing this provision well, but simply want it recorded that this is a high risk area. Members discussed the financial assessments undertaken by the College regarding its partners. The Director of Finance confirmed that whilst the College does do financial assessments, it could in fact do more, particularly in relation to its larger partners.
- Page 6 – this provides a summary of performance against funding targets. It was noted that the information provided is pre-ILR audit, and that as a consequence of the ILR findings there will be some changes, but they will not be material.
- In terms of performance, most areas are at or around performance, but there is some significant under performance in relation to 16-18 apprenticeships. It was noted that this has to be taken in the context of some significant growth in this area, and that the actual performance was a real achievement. Members were reminded that the comparisons are against contracts and not allocations.

Signed : _____ Chair

Date:

- Enrolments in 2011/12 look strong.
- Page 7 provides details of subsidiary company performance. Skilldrive is a real success story with the gross margin and revenue up on the previous year.
- Members identified some typographical errors in the report, Auditors confirmed that they would undertake a detailed proof read before final presentation of the document to the Board.
- Balance Sheet – this shows a change in the accounting policy regarding fixed asset review, which has now been signed off by the external audit policy team.
- Safety Plus results are as a consequence of the challenging environment. It was acknowledged that this Company's performance is being monitored but was felt to be in line with expectations at this time.
- Page 10 – this describes the audit process. There are no unadjusted audit differences other than very minor figures in relation to bad debt, all of which are under the materiality threshold.
- Page 12 – details control observations, some particular points were raised in relation to the Bribery Act and Governor declarations.
- Pages 13 & 14 – this provides a summary of follow up work from previous years, it was noted that, 1) tuition fees are only partially implemented, 2) there needs to be closer monitoring of franchise partners, and 3) the Redundancy Policy was due for review in April 2011 and is now overdue. It was confirmed that the Redundancy Policy would be scheduled for review by the Board at its December meeting.
- Pages 15 & 16 closes a loop in relation to previous reporting, there is noting that Auditors wished to draw to members' attention.
- Page 17 – details a small audit difference, which is not material.
- Pages 18 - 21 details sector pension reviews.
- Page 22 onwards details some changes in the sector. The clear steer is that the College is being asked to do more for less.
- Page 24 details the proposed regulation reclassification of Colleges, this proposal is causing a big stir in the sector with significant lobbying being undertaken.

Having reviewed the 2010/11 Financial Statement Audit Management letter, members agreed that there was nothing within it that caused them concern, it being the case that all issues had been identified and brought to their attention throughout the year.

AGREED to:

- note the 2010/11 Financial Statements Audit Management letter and
- request that the amended, final version of the document be presented to the Board

ACTION by whom	DATE by when
Director HR	8 Dec 2011

Signed : _____ Chair

Date:

11.51 **AOB**

There were no items of additional business.

11.52 **DATE OF NEXT MEETING**

The Clerk to the Corporation confirmed that the next meeting was scheduled for 23 February 2012.

Meeting closed at 6.30 pm.

ACTION by whom	DATE by when

Signed : _____Chair

Date: