WEST NOTTINGHAMSHIRE COLLEGE
AUDIT COMMITTEE

Minutes of the Audit Committee meeting held in the Vision Room at the Derby Road site on Thursday 8 November 2012 at 5.00 pm

BOARD MEMBERS PRESENT:	Chris Bodger Nevil Croston Diana Gilhespy David Overton Adrian Harpham
ALSO IN ATTENDANCE:	Maxine Bagshaw, Clerk to the Corporation Andrew Martin, Deputy Principal/Director of Finance Andrew Argyle, KPMG Dan Heyward, KPMG Mark Ashton-Blanksby, RSM Tenon

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

		ACTION by whom	DATE by when
12.47	**DECLARATION OF INTERESTS IN ANY ITEMS ON THE AGENDA**		
	The Chair reminded those present to declare any interests they may have on any items on the agenda. No interests were declared.		
12.48	**WELCOME, INTRODUCTIONS AND APOLOGIES FOR ABSENCE**		
	Apologies for absence were received from Tom Stevens, Louise Knott, Patrick Green and Louise Tweedy. It was noted that Mark Ashton-Blanksby is attending the meeting today on behalf of RSM Tenon.		
12.49	**MINUTES OF THE MEETING HELD ON 4 OCTOBER 2012**		
	AGREED: to approve the minutes of the meeting held on 4 October 2012.		
12.50	**MATTERS ARISING AND ACTION PROGRESS REPORT**		
	There were no matters arising. The updated action progress report at page 12 was noted.		
12.51	**2011/12 FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER**		
	KPMG introduced this item and circulated an updated document. They confirmed that the audit work had now been completed and they were		

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pleased to be able to confirm that an unqualified opinion would be provided. They indicated that the audit work had progressed smoothly and that this was particularly pleasing given the replacement of the Director of Finance`s second in command. They had found the papers provided by Mark Albrighton to be very good quality and all available on a timely basis. They had found that Mark provided a fresh perspective and a new objective view which had been really very useful and that this, coupled with the quality of working papers, had allowed a very efficient audit.

In terms of the general overall position, it was noted that the College has seen a very good result for the year. They explained that what they are seeing in the sector is that generally larger colleges have had a reasonable year and in their view, this is because the scale and diversity of provision, funds and activities gives these colleges greater flexibility to deal with and absorb changes in the sector.

Members` attention was drawn to the detailed report and the following was noted:

- Page 2 – the audit is substantially complete and auditors anticipated that it should be an unqualified audit opinion for the year on the College and subsidiary financial statements, following the approval of the financial statements by the Audit Committee and the College Corporation. It was confirmed that the audit report would be finalised and prepared in time to go the Board meeting in December.

KPMG	Dec 2012

- The overall historical cost surplus for the year was £3.4million (7.1% of total income) an increase on that seen in 2010/11 (£3million, 6.5% of total income). This rise is mainly due to an increase in funding body income and a lower rate of increase in staff costs and other operating expenses. The performance of the College subsidiaries has been varied, however, Skilldrive Ltd has continued to grow and perform strongly. The gross profit of Skilldrive Ltd increased from £979k to £1,007million, whilst administrative expenses rose from £1171k to £1176k, resulting in a decrease in operating profit (before deed of covenant) from £861k to £831k.
- One audit difference is reported. This does not have an impact on the historical cost surplus for the year. It was noted that this was an audit adjustment only and has been turned into an improvement recommendation, which is been actioned for future years.
- Auditors have identified two performance improvement observations, which are required to be brought to the Committee`s attention. A medium rated recommendation has been made with regards to both the recording of journal entries and the review of the number of invoices received around the year end (these items should be cross-referenced with full details provided on page 9 of the report).
- Page 3 – this provides the background to the audit process and work undertaken and confirms the auditors` independence.

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- Pages 4 and 5 replicate the income and expenditure and balance sheet data. What is of particular note is that apprenticeship activity is being managed very well despite the ups and downs in the forecast positions.
- Page 6 – this section summarises pension liabilities. It was noted that public sector pension liabilities continue to grow. Whilst the liability figure is notional, it should be noted that should the trend continue, there is the potential that the College's balance sheet would fall into a deficit position. It was acknowledged by all that this is something that has been discussed repeatedly and is a national, rather than individual and local problem.
- Page 9 details the two medium risk issues identified, these are a) journal numbers have the possibility for double counting, and b) £123k of capital expenditure had not been accounted for correctly within the accounts. The College should review this during its close down process.
- Page 10 – this provides a follow up on the prior year`s recommendations. Four recommendations have been met and one partially met. Auditors felt that assurance could be taken in these areas. They confirmed that they have also, as part of the audit, looked at capital expenditure, and are satisfied that this is well planned and managed.

Members discussed the page 6 detail regarding pensions and questioned why the inflation rate assumption adopted is less prudent that KPMG's benchmark range. Members` attention was drawn to the table on page 14, which gives a summary of actuarial data. It was acknowledged that the calculations are not an 'exact science'.

Members felt that the scale of liability which is over £12million should be a real worry for both this and all colleges, local authorities and higher education institutions. Members questioned whether there is anything that can be done to address this increase in liability. The Director of Finance confirmed that the College and sector has no influence upon the actuarial calculations, and it is the case that the statistical analysis undertaken by Barnett Waddingham, on behalf of the College, is within the parameters of those used in the sector. KPMG acknowledged that Barnett Waddingham is a well-regarded and recognised company providing actuarial advice. It was their view that if the College had used the Hymans Robertsons calculations then they would have been more concerned regarding the liabilities provided for in the accounts. The Director of Finance reminded Governors of the ongoing debate and the fact that the cost of providing this type of pension in the public sector is simply not currently affordable. Options to address this are to pay off the £12million debt, which is not affordable at this stage, alternatively, interest rates and returns on investment would need to increase, or pension members would need to die younger.

It was accepted that there needs to be a national change to the policy which allows colleges to extract themselves from this scheme, but at this

time this was politically not something that was anticipated as acceptable. Members were advised that the scale of liability in the college sector is estimated at £2billion and therefore something really needs to be done to address the growing 'time bomb'. It was acknowledged by all that this is something to continue to monitor on an ongoing basis, albeit that there is nothing that can be immediately done at this stage. • Page 7 – the performance of subsidiary companies was particularly noted. The loss sustained by Safety Plus Ltd of £41k was specifically brought to members` attention. • Page 9 – risk item 2 – the Director of Finance indicated that the medium recommendation detailed did not involve invoices that were not checked properly, what it relates to is invoices received after the close down date of the 2011/12 end of year. In general terms it was felt by all that the College had experienced another successful year. The Principal indicated that the sector was seeing so many changes, particularly at the moment in relation to apprenticeship reviews that she thought that it would be useful for the Board to have an auditor session detailing the changes, implications and what the Board should concentrate on. It was agreed that KPMG would present a training session/presentation at the January Board meeting.	KPMG	24 Jan 2013
AGREED: to note the 2011/12 Draft Financial Statements Audit Management letter.		

12.52 **2011/12 DRAFT MEMBERS REPORT AND DRAFT FINANCIAL STATEMENTS**

The Director of Finance introduced this report and confirmed that there were some minor formatting issues to be resolved before presentation to the Board in December. Members` attention was drawn to the content of the report and the following was specifically noted:

- Page 39 – this section provides an operating review.
- Page 51 – this provides the statement of Corporate Governance and internal control.
- Page 57 – provides statement of responsibilities.
- Page 58 – summarises auditors opinion.
- Page 62 onwards provides the numbers and the notes to the accounts.

It was acknowledged that a lot of the detail of this report had been considered in the previous agenda item and that all could see a very positive result.

When reviewing the data, members commented upon the following:

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- Page 42 – members would find it useful to see the words cross-referenced with the numbers in the accounts.
- Page 52 – Diana Gilhespy should be recorded as sitting as a member of the Audit Committee. Chris Bodger was on the Audit Committee for the whole of the academic year, first as a co-optee and then as a full Governor. It should be noted that David Overton is an observer regarding Estates matters at the Finance & Estates Committee. It was agreed that members would review and any inaccuracies to be fed back to the Director of Finance who would complete the changes requested.
- Page 60 – the reference to the Learning & Skills Council should be deleted, with the change made to 'Skills Funding Agency'.

Except for the minor amendments requested, members were entirely happy to approve the draft 2011/12 Members Report and draft Financial Statements and requested that it be presented to the Board at the December Board meeting.

AGREED: to approve the 2011/12 Draft Members Report and Draft Financial Statements.

12.53 **INTERNAL AUDIT PROGRESS REPORT**

RSM Tenon introduced this report and confirmed that what was presented was a quick, update on the 2012/13 audit work commissioned. It was noted that work in relation to Governance and Risk Management has commenced this week. Members were advised that the Risk Management audit is quite an in depth review. At the next meeting it is the intention of RSM Tenon to provide a number of sector briefings, these particularly relate to a) 24+ loans, and b) Protection of Freedoms Act.

Members` attention was drawn to the electronic briefings referred to at the bottom of page 91, these are fraud alerts. Members were advised that the sector has seen a number of scam attempts where bogus letters are received from contractors with a request to change bank details for payment. The Director of Finance confirmed that the College has, in fact, received one of these bogus letters in relation to its contract with Bowmer and Kirkland, fortunately the College did check the legitimacy of the letter and request prior to implementation. It was confirmed that the College has now incorporated a required check into its procedures as a matter of routine practice.

In general terms members were advised that whilst very early in the year the audit work being undertaken was progressing well.

One additional matter was raised by Internal Auditors, and this was the fact that a March 2012 report in relation to Security and Access Controls had not been presented to this Committee in its entirety. A summary has been provided in the 2011/12 annual report. To rectify this oversight, a full copy of the report was circulated and members reviewed in detail.

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RSM Tenon confirmed that reasonable assurance could be obtained from the audit work undertaken, but that three medium recommendations had been made. Members reviewed the recommendations in detail and commented upon them as follows:

- Item 3 – this is more of a data protection issue rather than compliance.
- Item 4a – completed.
- Item 5 – this is a good practice recommendation.

It was noted that the Director of IT has confirmed that the three medium recommendations have all been implemented and all deadlines met for the September 2012 date.

AGREED to:
a) Note the 2012/13 internal audit progress report.
b) Note the content of the network and security access controls report.

12.54 **AUDIT COMMITTEE ANNUAL REPORT 2011/12 DRAFT**

The Clerk to the Corporation introduced this item and drew members` attention to the following:

- Section 1 is an introduction and background to the summary report.
- Section 2 details membership, terms of reference and meetings completed.
- Section 3 provides a summary of the internal audit programme.
- Section 4 summarises the content of the internal audit report for 2011/12.
- Section 5 is a review of the management letter of the financial statements auditor KPMG, which was considered earlier on the agenda.
- Section 6 makes reference to the College`s risk management arrangements.
- Section 8 summarises the Auditors` fees.
- Section 9 provides conclusion and recommendations.

It was noted that paragraph 3.3 has an error in the date. The year should read 2012 and not 2011. Except for this minor typographical change, members were happy to approve the draft presented.

AGREED: to approve the Audit Committee Annual Report for 2011/12.

12.55 **ANTI FRAUD AND CORRUPTION REPORT 2011/12**

The Director of Finance introduced this item and reminded Governors that what was presented was an annual report. The report provides a summary of the outcomes of proactive and reactive fraud investigation work and it provides a focus of the work delivered by internal audit and

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the instances to which fraud or irregularatory, either actual or suspected, has occurred within the College in the year. Members` attention was drawn to the detail of the report and the following was noted:

- During 2011/12 there were no reported or suspected cases of fraud or irregulatory reported through the College whistle-blowing procedure, which required the delivery of the fraud response plan.
- However, following the reporting of a case in July 2011, the Director of Finance was made aware of an incident involving the certification of Learner outcomes of the First Aid provision, which has now been fully investigated. The allegation was not upheld although the Investigating Officer recommended a curriculum review of process and procedures. The case went through appeal and was not upheld, although it did highlight some weaknesses in process. The case did have much wider implications for the curriculum area and the conduct and process of delivery of First Aid as a whole. As a result of the investigation, one learner's certificate was withdrawn.
- Following suspension by the Awarding Body and contact by one of the tutors operating in the curriculum area, a programme of re-accreditation was undertaken by the awarding body and staff concerned in order to reinstall approval. The College is currently defending an employment tribunal claim from one employee implicated in this situation. The College is in the consultation phase of withdrawing from delivery of the First Aid curriculum.
- The College suffered no financial losses as a result of this whistle-blowing report, but is likely to have received damage to its reputation from the Awarding Body, the student under review and the staff operating in the area.
- No further cases have been recorded during the year or up to the date of preparing this report for the Committee.

In terms of key priorities for 2012/13, the Internal Audit plan does not specifically have any resource allocation for anti-fraud and corruption activities, although the flexibility within the plan provides the ability to respond as and when required. The priorities for 2012/13 are:

- Continued work to improve levels of awareness of fraud risks among managers and staff.
- Improvements to the effective communication of College policy, procedure and codes relating to Anti-fraud and Anti-bribery policy.
- Working with colleagues, particularly in human resources and the internal audit function to help clarify roles and responsibilities, share expertise and maximise the activity and effectiveness of the anti fraud activity across the College.
- Maintaining intelligence and oversight of fraud cases and outcomes to support improvements to risk identification, controlled frameworks and decision making.

AGREED: to note the 2011/12 Anti-Fraud & Corruption Report.

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Members took the opportunity to discuss the First Aid provision generally and were advised that the planned withdrawal from this area by the College was not just in response to the fraud allegations seen. It was felt that the College, because of its cost base, simply cannot deliver this provision economically in what is a very competitive financial market. It was agreed that the College would look at the delivery model of First Aid going forward and undertake a review.	Director of Finance	2012/13

12.56 FMCE SHORT RETURN QUESTIONNAIRE

The Director of Finance introduced this item and drew members` attention to page 118. He confirmed that the starting point for completion of the questionnaire had been the PFA report provided in May 2012. Any actions identified have been cross-referenced and included within the improvement plan.

Members noted that at page 119 the College has certified that ‘there had been no significant changes in the College in the last 12 months’, Members questioned whether the change in Ofsted grading from Outstanding to Good qualified as a significant change. It was acknowledged that this, within the FE sector, would not amount to a significant change. It was agreed that the action points identified would be monitored through the rolling action progress report presented at each meeting.

AGREED: to note the FMCE questionnaire completed.

12.57 RISK MANAGEMENT

The Director of Finance introduced this item and reminded the Committee that they had agreed a structure for KPI’s, which attaches to the significant risk register. It was noted that good progress has been made in terms of risk mitigation activity for most of the significant risks, however, members` specific attention was drawn to the current position in relation to 16-18 full time recruitment. Members were asked to note the following key points:

- The College has achieved its full target for HE numbers and has over achieved in enrolment targets.
- In terms of its 16-18 full time numbers, the College currently stands at 89% of target. In September, the College recruited to 96% of target, but has however processed 152 withdrawals since that time. It was noted that this is 152 out of approximately 3100. Further investigation is currently taking place with Heads of School to ascertain any particular trend analysis for these withdrawals. It was acknowledged that whilst the College does have a high withdrawal rate, this is not an uncommon pattern. It was felt that the withdrawal rate may be higher this year than in previous years because the College has made the decision to enrol students a lot earlier in the year. As a consequence, students are enrolling at a number of

	colleges and it is not actually until the day the course starts that colleges know whether or not the student intends to commence the course.		
	Members` attention was drawn to key external risk factors, these were noted as:		
	• Work on the Studio School proposal and the potential impact that this may have on College relationships with local schools. • A lack of clarity about the raising of the participation age and the impact that this may have on the College being able to recruit 16-18 year old school leavers in September 2013. • A growing concentration on contracting provision by the media, Government and the SFA. The implications of this are not clear, however, considering the large amount of sub-contracting currently at the College, a tightening or ceasing of arrangements could have a negative impact on the College. • The imminent publication of the Ofsted annual report – this is likely to be quite critical of colleges, and as a result could be damaging for the sectors reputation.		
	• The publication of the Lingfield review and the resulting focus on literacy and numeracy and the agreement to the formulation of a Guild for FE, this would be subject to a presentation at the next Board meeting.	Principal	Nov/Dec 2012
	It was noted that the College is currently very vulnerable to knee jerk Government policy changes and that a longer-term strategy needs to be developed to progress decreased reliance on the public purse. The Principal indicated that at the June 2013 residential there may need to be more in-depth time provided for medium and long-term strategy discussions on how best to place the business to protect and grow.	Principal	June 2013
	AGREED: to note the Risk Management update.		
12.58	**<u>REGISTERS, ATTENDANCE AND RECORDING</u>**		
	The Director of Finance introduced this item and presented what is update three. He confirmed that the College is making some significant progress and the following was particularly noted:		
	• Since the last update on 4 October 2012 the policy changes agreed and implemented have not been amended as the Central Team seek to provide information on the reporting of Schools of Learning to focus upon and tackle any areas of concern. • One area which continues to cause some issues is through registers relating to enrolment on functional skills learning aims. Curriculum teams have not been able to allocate learners to the correct level of functional skills immediately, despite a diagnostic test from BKSB and have been given an end stop date of 2 November 2012 to enrol all learners to the correct aim. Once this process has been completed		

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there should be very few known reasons why register marking cannot take place in a timely and accurate manner through the electronic system.

- The Learner Records Team is in the process of carrying out the first of three register checks for recorded activity in 2012/13. Following completion of the checks, the report will be prepared for each School of Learning, highlighting any areas of concern and follow up action required.
- The reporting now includes further information on the actual process of marking registers, this includes the timeliness of marking and the source of marking and in particular when registers are not being marked by the tutor. This highlights the areas where rework is occurring, either by the tutor manually collating register marks in the class and electronically marking at a later date, or passing this information directly to the administrator to be populated electronically.

The review of registers has seen improvement, particularly the number of unmarked registers has decreased from 58% to 23%. Members reviewed the data tables on page 130 and noted that Construction is an area that stands out, also of concern is the fact that 79% of registers are being marked after class contact. This is a strong indicator that registers are being completed manually in a paper format at lesson and then at a later stage are being electronically reported. This is an inefficiency and duplication of effort that needs to be eradicated.

The Director of Finance did acknowledge that there were some register set up issues and availability of PC's that has to be addressed. In his view, what the College now needs to see is a change in culture, and this needs to be tackled at source. Members spent some considerable time discussing possible electronic swipe systems - benefits, draw backs and costs. It was felt that whilst desirable, the introduction of such a system would not eradicate the cultural issues identified. Members acknowledged that there was a Health and Safety implication of failing to record attendance correctly, particularly should there be a fire in the building, and that greater clarity needed to be obtained regarding who was on site. The Director of Finance gave assurance that registers were being completed, albeit that they were not been done electronically as required, but in the old fashioned paper format.

In terms of summary areas to address, the following was noted:

- The total percentage of unmarked registers has fallen from 58% to 23% at the end of October. Whilst this has been expected, it is still encouraging to see rapid progress being made in order to get on top of the register marking process quickly and early in the academic year.
- Across the schools of learning, EX – Construction stands out as being of some concern. Whilst progress has been made in reducing unmarked registers to 58% from 71%, this still remains a high

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proportion and the Central Team are looking into the reasons why this anomaly may be apparent.

- Engineering (EC) and Care & Education Studies (HX) are the only other two areas above 30% and both have delivered significant reductions in the proportion of unmarked registers since the last report.

AGREED: to note the update provided.

12.59 **AUDIT SERVICE SECTOR UPDATE**

It was agreed that sector development had been discussed as part and parcel of earlier agenda items.

12.60 **AOB**

There were no items of additional business.

12.61 **DATE OF NEXT MEETING**

The Clerk to the Corporation confirmed that the date of the next meeting was scheduled for 14 February 2013.

Meeting closed at 6.40 pm.

Signed : ____________________________ Chair Date: