

MORLEY COLLEGE LIMITED

AUDIT COMMITTEE

MINUTES OF MEETING HELD ON 23 NOVEMBER 2010

Present:

Myra Kinghorn (Chair)
Linda Gainsbury
David Leighton
Portia Ragnauth

In attendance:

Nick Rampley Vice Principal
Mike Cheetham RSM Tenon (Internal Audit Service) *[Items 1 to 9]*
James Boyd Buzzacott (Financial Statement Auditors) *[Items 1 to 9]*

Clerk:

Graham Cooper Clerk to the Governing Body

1. Apologies for absence

There were no apologies for absence. The Chair welcomed Portia Ragnauth to her first meeting of the Committee.

2. Minutes of meeting held on 21 June 2010

The minutes were approved and would be signed by the Chair.

3. Matters arising other than on the agenda

- a) **Internal Audit Reporting on previous recommendations.** The Internal Auditor advised that the on-line tracking facility for Internal Audit recommendations was expected to be made available shortly.
- b) **Internal Audit Payroll/PAYE work.** The Vice Principal advised that although he had discussed the outcome of this work with the manager from RSM Tenon, he was still waiting to receive the notes of that discussion. The Internal Auditor undertook to follow up this matter.
- c) **Risk Management Summary.** The Committee noted that in view of time constraints at the July Governing Body meeting, discussion by the full Governing Body on the Risk Management Summary, and specifically in relation to Risk Appetite, had been deferred until the January Governors' away-day.
- d) **BEC acquisition.** The Vice Principal advised the Committee that whilst the acquisition of the business of BEC had been completed on 6th October, there remained an issue with regard to the entity BEC Ltd. Advice had been received from Stevens Bolton, the College's legal advisors on the acquisition, that rather than BEC Ltd being wound up by its current trustees as originally envisaged, it should be taken over by the College. The rationale was that should there be any subsequent legacies in favour of BEC Ltd, the

College would be unable to benefit from these if BEC Ltd had ceased to exist. Moreover, it had been suggested that failure to take on the legal entity BEC Ltd might lead to members of the Governing Body becoming personally liable for failure to enable such legacies to be utilised for their intended purpose. A solution to this issue might be for the College to retain BEC Ltd as a dormant company, with two members of the Governing Body taking on the roles of directors. The Vice Principal had sought to achieve greater clarification on the issues but the partner in Stevens Bolton dealing with the matter was currently on leave. Having considered the matter, the Committee requested that a paper clearly setting out the issues, legal position and risks, be circulated in order that Committee members could fully consider the matter prior to making a recommendation to the Governing Body.

Actions:-

- i) **Internal Audit Payroll/PAYE work – Internal Auditor to follow up on reporting of discussion.**
- ii) **Risk Management Policy and Risk Management Summary – To be reviewed by the Governing Body at its January Away-day.**
- iii) **BEC acquisition – Paper setting out the legal position and risks relating to the retention of BEC Ltd as a dormant company to be circulated to members of the Committee for further consideration in order that a recommendation can be made to the Governing Body.**

4 (i). Annual Report of the Internal Audit Service 2009/10 (NR)

The Internal Auditor presented his Annual 2009/10 Report, noting a consistent format with the previous year. He highlighted that the planned audit coverage during the year had been as planned and approved by the Committee. Whereas the prior year's audit opinion had been qualified in respect of risk management, a clean opinion had been given for 2009/10, confirming that the College had adequate and effective risk management, control and governance processes in place.

Of the recommendations arising from the audit work during the year, only one had been classified by the Internal Auditor as a Grade 1. This related to the absence of formal month end procedures relating to Learner Number Systems. The Vice Principal advised that he and the Internal Auditor held different views on this issue, with regard to the necessity for monthly rather than termly reconciliations, highlighting also the additional resource that would be needed.

The Chair was keen to review progress on the prior year's recommendations, although the level of detail needed to facilitate this review was not a feature of the annual report. The Internal Auditor advised that Part 2 of the Audit Code of Practice was expected to be published shortly, and was likely to contain a recommendation that audit committees should review progress on prior year recommendations twice per year. He also advised of the intention for his team to review such recommendations at their next visit, enabling progress to be reported to the Committee's March meeting. It was therefore agreed that this matter should be placed on the agenda for the March meeting, and also that the Audit Committee Annual Report to the Governing Body should be amended to include comment that this is to take place.

Actions:-

- i) **Progress on Prior Year recommendations to be reported to the March meeting of the Committee.**
- ii) **Audit Committee Annual Report to the Governing Body to be amended as above.**

4 (ii). Internal Audit Strategy 2010/11 (NR)

Although considered by the Committee at its previous meeting, a decision had been taken to re-visit the draft strategy at this meeting in light of any issues arising from the Government's Comprehensive Spending Review in the interim. The Internal Auditor noted that there had been nothing thus far to suggest that any changes should be made.

The Committee debated whether some aspects of the College's processes, such as IT systems, last reviewed by the Internal Auditor in 2006/07, should not be subject to more regular review. Similarly, Quality Assurance, last subject to Internal Auditor scrutiny in 2006/07 and considered Adequate at that time, was highlighted. The Committee considered whether, in the absence of further review, inappropriate assumptions were being made regarding ongoing effectiveness. However, recognising limited resources and the need to optimise expenditure on audit services, the Committee noted that these aspects of College activity were reported internally to the various Governing Body sub-committees, on which it was incumbent to refer any concerns, thus prompting any necessary further review by the Internal Auditor.

In reviewing the draft strategy further, the Committee noted the review to be undertaken of Staff Utilisation. The Internal Auditor highlighted that, in the current climate of funding cuts and need for efficiencies, this was an area being looked at by the majority of colleges.

4 (iii). Re-appointment of Internal Auditors

Discussion on this item was deferred until later in the meeting.

5 (i). Directors' Report & Statutory Accounts to 31 July 2010 (NR)

The Chair noted the responsibilities of the Committee to consider the draft financial statements from the viewpoint of governance, accounting policies and statements of disclosure, whilst it was the Finance & Resources Committee's responsibility to consider the financial information in detail. In particular the Committee should satisfy itself with the statements on pages 12 to 15. The FS Auditor talked the Committee through the statements and advised that the only material change from the previous year related to Risk Management, the previous year's statement having contained a qualified statement with regard to the effectiveness of risk management throughout the period. The latest statements contained an unqualified statement, reflecting the improved processes in place throughout the year. The FS Auditor also highlighted that this corresponded with the clean Audit Report on pages 16-17 of the Report & Accounts. A similarly clean audit opinion in relation to the Regularity Audit was included on page 18. Having received assurances from the FS Auditor, the Committee concluded that there were no matters that needed to be brought to the Governing Body's attention.

5 (ii). FS Auditor's Management Letters (NR)

The FS Auditor gave an overview on the content of the post-audit management letter, thanking the management and finance teams for helping to ensure that the audit had run particularly smoothly. The Committee discussed a number of specific points arising.

- a) Most importantly, the letter confirmed that a unqualified audit opinion had been given.
- b) Retirement Benefits (FRS 17). The Report & Accounts contained a 'Past Service Gain' of £298k, which had arisen due to the FRS 17 pension calculation being based on the Consumer Price Index (CPI), as opposed to the Retail Price Index (RPI) previously. This was rightly shown in the Statement of Total Recognised Gains and Losses in the Report and Accounts, not in the Income & Expenditure Account. The

FS Auditor and the Internal Auditor advised that the approach to this item varied significantly across different colleges. The Accounting Standards Board had yet to issue guidance, and should this change before the Report & Accounts are submitted to the Governing Body for approval, then changes might be necessary. The Vice Principal further highlighted the different actuarial assumptions used across colleges in different geographic regions.

- c) Assessment of the College's Financial Health. Based on the Framework for Excellence financial health model, the College's financial health was graded as 'Good'. The Vice Principal noted that the College only just fell short of the 'Outstanding' classification.

The Regularity Post Management Audit letter, confirming the FS Auditor's intention to issue an unqualified opinion, was also attached. Whilst a small number of observations had been made as set out in the Appendix, these were not sufficiently material to affect that clean audit opinion. The Committee noted that one of these observations related to the fact that safe cash limits had been exceeded on more than one occasion. The Vice Principal advised that it was not possible to increase the insurance cover for cash held in the safe, and that given the infrequency of the occurrence and the significant cost of replacing the safe, the CLT did not consider that it reasonable to do so.

The Committee having noted the contents of the two management letters, the Chair thanked the FS Auditor and asked that the Committee's thanks be passed on to the management team for their efforts which had ensured that clean audit opinions had been obtained.

5 (iii). Letter of Representation – Financial Statements (NR)

The FS Auditor advised that the draft letter, containing representations to be made by the Governing Body to the FS auditors, was very similar to that of the previous year. No issues were raised, and the Committee approved the letter to be recommended for signing by the Chair of the Governing Body.

6 SFA Funding Audit

The Vice Principal advised the Committee that once again the College had been 'selected at random' for a funding audit. On this occasion, the audit had been undertaken by the SFA's own team (the previous year's having been done by staff from KPMG) and took place nearer to the year-end. The Vice Principal tabled the Draft Audit Report, which had only just been received by the College. The Committee reviewed the findings of the report, as follows:-

- (i) Eligibility and Enrolment Weakness. As in the previous year, this related to the non-signing of enrolment forms by students who had enrolled by telephone, though the significance of the issue was much reduced. Around 1% of forms sampled had been found to be unsigned, and extrapolating this percentage meant that c.£57k was removed from the College's funding claim. Given that the College had over-delivered by a much greater figure, this had not resulted in any claw-back of funding. The Vice Principal advised the Committee that new back-up systems had been introduced, involving the signing of declarations by students in class, though this was dependent upon action by tutors and would not be a foolproof solution. It was noted that the issue of non-signing of enrolment forms might be exacerbated by the introduction of online enrolment, though the Internal Auditor advised the Committee that he believed that the SFA were on the verge of issuing a policy paper relating to the acceptance of electronic signatures.
- (ii) Fees paid by 16-18 year olds. In a very small number of cases, it had been found that fees had been paid by 16-18 year olds. Whilst processes were in place in an effort to avoid such occurrence, some had fallen through the system. The Vice Principal

advised that the amount repaid to students as a result of this finding was c.£1,500, and that systems had been amended in an effort to avoid such errors in the future.

- (iii) DSATS review. The Vice Principal questioned the importance of this finding that there had been errors on the DSATS at the date of the audit, it being the College's practice to ensure that the figures are reviewed and correct prior to submission.

The Committee noted that overall there were no issues arising from the report to cause Governors alarm or requiring significant further action.

7. Annual Risk Management Report (NR)

The Committee noted the contents of the report, provided in accordance with the requirements of the Risk Management Policy. The Vice Principal advised of efforts being made to get the Risk Management Group to change its focus from day to day operational issues that were now largely managed satisfactorily, towards the more strategic risks faced by the College, uppermost of which were the risks from significant cuts in Government funding. Mitigation of these risks was a issue of critical importance for the College. He noted that representation from the Governing Body on this group to consider this issue would be extremely welcome, and he would arrange for Governors to be emailed with an invitation to join.

Action:- Vice Principal to arrange for members of the Governing Body to be emailed with an invitation for GB representation on the Risk Management Group.

8. Business Continuity Plan (NR)

At the previous meeting of the Committee, it had been requested that the Business Continuity Plan be submitted to this meeting for periodic review. The Committee reviewed and noted the contents of the plan, which the Vice Principal confirmed was reviewed by the College Leadership Team and Risk management Group on a regular basis and at least once per year, the last review having been in July. The Internal Auditor advised that he considered the plan satisfactory and broadly typical of those he had seen for other colleges.

9. Audit Committee Annual Report to the Governing Body (GC)

The Committee reviewed the draft annual report to the Governing Body, which summarised the Committee's activity relating to the year ended 31 July 2010. The Internal Auditor and FS Auditor confirmed their satisfaction regarding the content and accuracy of the report. The Committee noted that the report should be amended, as discussed earlier in the meeting, to include comment that outstanding prior year recommendations would be reviewed by the Committee at its March 2011 meeting. The Chair requested members of the Committee to advise herself and the Clerk of any further required amendments by close of business on Monday 29th November.

Actions:- Clerk to make required amendment to the Annual Report

[At this juncture, the Vice Principal and the Clerk briefly absented themselves. The FS Auditor and the Internal Auditor were given the opportunity to speak to the Committee without the members of staff present. There were no matters needing to be brought to the Committee's attention. The FS Auditor and the Internal Auditor then left the meeting]

Action:- The Chair requested that the Audit Committee Annual Report to the Governing Body be further amended to note that the previous discussion with the Internal Auditor and the FS Auditor had taken place in the absence of members of staff, and that there were no matters to bring to the Governing Body's attention.

4 (i). Annual Report of the Internal Audit Service 2009/10 (NR) [Continued]

The Committee considered the proposed scores relating to the performance indicators for the Internal Auditors. The Committee accepted the Vice Principal's recommendations, noting that these were slightly more favourable to those for the prior year.

4 (ii). Re-appointment of Internal Auditors

The Committee confirmed the re-appointment of Tenon as Internal Auditors 2010/11.

10 Re-tendering of Financial Statements Audit work (NR) [RESERVED BUSINESS]

The Vice Principal reminded the Committee that the College's Financial Regulations stated that 'External auditors will be re-appointed annually by the Governing Body with a review every five years. The Audit Committee will advise the Governing Body on the appointment.' The audit of the 2009/10 statements was the fifth year of Buzzacott's tenure. The Vice Principal proposed two options on the way forward for consideration:-

- a) to re-appoint Buzzacotts for a further period, or
- b) to invite a selection of firms to tender for the contract (a minimum of three being required under the College's Financial regulations).

It was noted that from the perspective of the College's Finance Department, Buzzacotts had provided a timely and efficient service and that there was no reason why they should not be re-appointed, other than that it was best practice to test the market periodically.

Having considered the options and firms that might potentially be invited to tender, the Committee decided to proceed with a re-tendering, inviting three firms: Buzzacotts, Baker Tilly and Grant Thornton. The Vice Principal agreed to prepare a draft tender document and to circulate this to members of the Committee for feedback. It was envisaged that as part of the process, the firms would be invited to make presentations to a panel comprising three members of the Committee. The Chair, Linda Gainsbury and Portia Ragnauth volunteered to make up the panel. It was also agreed that the Vice Principal should be involved, to the extent that this was permitted within the Audit Code of Practice, which would be checked. The selection process would need to be completed during the Spring term in order that a recommendation could be made to the Governing Body Spring term meeting, allowing time for a strategy for the audit of the 2010/11 Accounts to be presented by the successful firm during the summer term.

Action: - Vice Principal to circulate members of the Committee with a draft tender document.

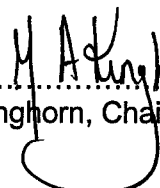
11. Any Other Business

There was no other business.

12. Date of Next Meeting

The next meeting is scheduled to take place at the College on Tuesday 8th March.

Graham P. Cooper
Clerk to the Governing Body

Signed.....
Myra Kinghorn, Chair