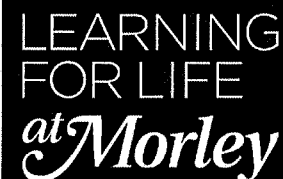


MORLEY COLLEGE LIMITED

AUDIT COMMITTEE

MINUTES OF MEETING HELD ON 20 JUNE 2011



LEARNING
FOR LIFE
at Morley

Present:

Myra Kinghorn (Chair)
Linda Gainsbury
David Leighton
Portia Ragnauth

In attendance:

Nick Rampley Vice Principal
Mike Cheetham RSM Tenon (Internal Audit Service)
Mark Law Baker Tilly (Financial Statement Auditors)

Clerk:

Graham Cooper Clerk to the Governing Body

1. Apologies for absence

There were no apologies for absence. The Chair welcomed Mark Law of Baker Tilly to his first meeting following the firm's recent appointment as the College's Financial Statements Auditors.

2. Minutes of meeting held on 8 March 2011

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

3. Matters arising other than on the agenda

a). Internal Audit Payroll/PAYE work. The Internal Auditor advised that he had taken steps to chase progress on this matter.

b). Risk Management – Examples from the Internal Auditor of actions taken by other colleges sufficient to demonstrate that a meaningful difference to the level of risk has been achieved. It was noted that this matter would emerge during discussion on the agenda item on Risk Management, but that no examples had been forthcoming. The Internal Auditor highlighted, however, that whilst there were some generic risks, often outside individual colleges' control, many risks were specific to individual institutions. Further discussion on this point was deferred.

c) Risk Management – Ownership of risk by members of the College's middle management. The Vice Principal advised that a Departmental Risk Register had been devised and integrated into the SAR process, in order to get Departmental managers to think more about higher level risk issues. Authors of SARS were now being asked to use a risk management template as a framework for determining strengths and weaknesses, using headings from the Balance Scorecard, in an effort to get them to change their focus away from operational day to day issues to broader risk issues. The Vice Principal agreed to provide a copy of the template for circulation with the minutes of the meeting.

Actions:-

- i) **Internal Audit Payroll/PAYE work – Internal Auditor to follow up on reporting of discussion.**
- ii) **Risk Management template devised for use by middle management to be circulated with the minutes of this meeting.**

4(i). April 2011 Internal Audit Assignment Report (MC)

The Internal Auditor presented the report of the April visit, which comprised a review of Learner Number Systems, Governance and the Acquisition of BEC. Each section of the report was reviewed, as follows:-

a) Learner Number Systems

The Internal Auditor advised that the review had resulted in a 'Green' rating. Only one Low grade recommendation had arisen from the review. The Committee noted that this was an extremely positive outcome and a very substantial improvement on the position that had existed two to three years previously.

The Chair noted that the Internal Auditor's report to the previous meeting of the Committee had included a follow-up on prior year recommendations, but that, as four of the six outstanding recommendations had related to Learner Number Systems, discussion had been deferred, with the intention that progress be reviewed at this meeting. It was not clear from the report on the recent review of Learner Number systems whether the issues previously raised had now been satisfactorily resolved. The Committee considered briefly the outstanding recommendations, with the benefit of the Internal Auditor's input. However, the Chair requested further clarification, with an update on progress on the six outstanding recommendations to be circulated to members of the Committee for review prior to the forthcoming meeting of the Governing Body on 11 July.

The Committee also considered the scope of the most recent review of Learner Number Systems, which the Internal Auditor clarified had been a substantive test of the data that underpinned the College's funding claims, carried out in accordance with the SFA audit approach. The Committee noted, therefore, that this audit did not include a review of controls.

The Vice Principal highlighted the significant progress, as drawn to the Committee's attention by the Internal Auditor, relating to Learner Number Systems and MIS. This was the result of the efforts of the MIS team. He advised, however, that the College's Senior MIS manager had recently left. Whilst a successor, currently working at another college, had been appointed, he had no direct experience of the Capita Unit-E system, and would therefore have a somewhat steep learning curve. The Committee was advised that the MIS technical team had sufficient experience and expertise to deal with the day to day operational activities. The Vice Principal advised that one of the first tasks of the new appointee would be completion of the documentation of MIS procedures, the subject of one outstanding Internal Audit recommendation. The staff changeover meant, however, that the agreed timescale for completion of the work would not be met. A revised timescale would be agreed as part of initial discussions with the new appointee. The Chair asked the Vice Principal to report back to the Committee on the revised timescale in due course.

b) Governance

In response to a specific request from Governors, a review had been undertaken of the appropriateness of information provided to them, and the report concluded that

Governors received appropriate information to enable them to discharge their responsibilities. No recommendations were made. Whilst noting this positive outcome, the Committee commented that it would have been useful for the Internal Auditor to have commented on the appropriateness of KPIs used by the College, in the context of his experience of seeing measures used by other colleges.

c) Acquisition of BEC

A 'Green' rating had also been the outcome of the review of the College's acquisition of BEC, although two recommendations had been made. The first related to the reconciliation of fees and the Vice Principal highlighted that this was a risk specific to the current year that was being managed, and that given that the total fees relating to BEC amounted to c.£5k, the quantum was such that the Committee need not be unduly concerned. The second recommendation related to recording of attendance, and the Vice Principal advised that appropriate steps were being undertaken to integrate systems, such that the matter was also only a current year issue.

The Committee noted the very satisfactory overall outcome of the visit, noting that there were no major issues of concern.

Actions:-

- i) Update on progress on outstanding recommendations to be circulated to members of the Committee for review prior to the Governing Body meeting on 11 July.**
- ii) Vice Principal to report back to the Committee on revised timescale for completing documentation of MIS procedures.**

4(ii). Draft Internal Audit Strategy 2011/12 (MC)

The Internal Auditor presented his draft strategy for internal audit work for 2011/12, explaining that the report set out the external context, the risks faced by the College and how the College was reacting to these. He explained that the areas to be covered were in line with the current Audit Code of Practice, the anticipated new Joint Code remaining overdue for publication.

The Committee reviewed the individual areas of activity covered by the audit plan, as set out in Appendix B to the report. The following issues were specifically highlighted:-

Long Term Planning - The Committee was keen to receive assurance that the timing of the internal audit work was appropriate. The Vice Principal advised that discussion had already taken place with the Internal Audit Client Manager to ensure engagement in the process of the development of the College's new Three Year Strategic Plan. Formulation of the new Strategic Plan was underway, and consultation was planned with relevant interested parties. It was likely that the Principal would be updating next term's Committee meetings on progress, with a draft plan to be submitted to the December meeting of the Governing Body. The Internal Auditor advised that as part of their work, his team would look at the sensitivity analysis undertaken by the College and how it anticipated reacting to various different potential scenarios in relation to cuts in Government funding. The Chair therefore noted that the timing of this work would be the autumn (not winter as indicated in the draft plan), to underpin the work being undertaken by the CLT and to ensure that what goes forward to the Governing Body in December is appropriate. The Committee requested the Internal Auditor to report on this matter to the November meeting of the Committee.

Governance & Risk Management – The Committee noted that this review would include attendance at a Board Meeting in order for the Internal Auditor to see the Board in operation. Noting the imminent change of Chair of the Governing Body, the

Committee considered that the Spring Term would be a more appropriate timing for this work.

The Chair brought the Committee's attention to the 'Considerations for the Audit Committee' set out in section 3 of the Internal Auditors report, which the Committee duly considered and confirmed that it was generally satisfied on each of these, subject to the following points raised:-

'Added Value' – The view was expressed that the Internal Audit reports might add more value, by making suggestions for consideration by Governors, based on the Internal Auditor's experience of seeing the same issues tackled across a number of colleges. The recent report on Governance was cited as an example of a report that could have been enhanced by such an approach. The Internal Auditor advised that such had not been within the terms of reference for that review, and that if there were specific aspects that Governors wished to see addressed, these could be raised with the Vice Principal in order to ensure that they were covered at their planning meeting. Any additional requirements would, of course have resource and cost implications. The Committee requested that further detail of the proposed areas of internal audit coverage be provided in due course, once scoping papers are available, to enable Committee members to add input if appropriate in order to ensure an appropriate focus on 'added value'.

Emerging issues not covered within the 2011/12 Internal Audit Plan – The Committee noted that the two emerging issues highlighted were Safeguarding and Data Protection. With regard to Safeguarding, the Committee had received an annual report at its previous meeting and, also aware that the recent Ofsted inspection had recorded satisfaction with the proportionality of the College's approach to this matter, the Committee confirmed that it was satisfied that there was no need for any further immediate review. The Committee asked the Vice Principal provide a report on Data Protection compliance at the College in order that it could consider this matter further.

Bribery Act – The Committee questioned whether Governors should be concerned regarding the implications of the 2010 Bribery Act, which comes onto force in July 2011. The Vice Principal explained that the College had taken on board the recommendations of the Act and that the College's Financial Regulations, due to be presented at the forthcoming Governing Body meeting for approval, had been revised accordingly. He explained, however, that the impact was limited in view of the College's lack of an international dimension. The impact was much greater on colleges and universities with overseas campuses and students. The Chair requested that a one page summary be provided to the next meeting of the Governing Body. The Internal Auditor advised that the AoC had produced a brief summary which might be appropriate for this purpose.

Subject to the above, the Committee approved the 1011/12 audit programme and the estimated fees.

Actions:-

- i) Internal Auditor to report on Long Term Planning to the November meeting of the Committee.
- ii) Further detail of proposed areas of internal audit coverage be provided in due course, once scoping papers are available, to enable Committee members to add input if appropriate in order to ensure an appropriate focus on 'added value'.
- iii) Vice Principal to circulate a report to members of the Committee on the College's approach to Data Protection compliance.
- iv) Bribery Act – One page summary to be provided to the July meeting of the Governing Body.

5. Preliminary Financial Statements Audit Strategy (ML)

The FS Auditor thanked the Committee for Baker Tilly's appointment, and presented the Draft Financial Statements Audit Strategy for the financial year ended 31 July 2011, put together in consultation with the Vice Principal and his team. He advised that the report had been compiled without, as yet, a response to enquiries made of Buzzacotts, the College's outgoing FS Auditors. As part of the normal process of taking over this role, the outgoing FS Auditor had been written to enquiring whether there were any matters about which the incoming FS Auditor should be aware. The latter was entitled to visit and inspect any papers of the outgoing firm that might be appropriate.

The Draft Audit Strategy set out the engagement objectives, approach, timetable, and key risk areas that the FS Auditor believed should be covered, together with a note of the FS Auditor's fees and method of interaction with the Internal Auditor.

The FS Auditor explained that the scope included both a Financial Statements Audit and Regularity Audit. The timetable envisaged three visits to the College during the autumn, and also a meeting with the Internal Audit team, likely to take place in August. Following a final clearance meeting with management in October, Draft Financial Statements and a report on findings would be reported to the November meeting of the Committee.

The FS Auditor highlighted the key risk areas that had been identified for review. These included redundancy issues (in view of the current restructuring programme) and Teaching Costs and Income (in view of their size/materiality). Additionally, Heritage Assets would be reviewed, to ensure compliance with the disclosure requirements of FRS30.

The FS Auditor explained that the proposed fees were in line with the recent tender for the work, and specifically were inclusive of disbursements.

The Committee approved the Audit Strategy and authorised the Chair to sign the Engagement Letter.

6. Risk Management (NR)

a) Risk Management Policy

The Vice Principal presented the College's Risk Management Policy for annual review, advising that no amendments were proposed. The Committee agreed to recommend the policy, as presented, to the next meeting of the Governing Body.

b) Risk Management Summary

The Vice Principal presented an updated Risk Management Summary for consideration by the Committee and for recommendation to the next meeting of the Governing Body. The Summary constituted a Risk Register of the major, high level, risks, and an Action Plan identifying the areas in which the College's senior management needed to take action over the next year (and beyond). The Vice Principal explained that the risks identified were fundamentally unchanged from the last version presented to the Committee, although the context, descriptions and controls had been updated. Risk relating to the acquisition of BEC continued to be included as integration was not yet fully complete, but it was expected that as from next year, this would cease to appear. He also advised, however, that an additional risk had been identified at the recent meeting of the Risk Management Group and that it was intended to add this to the Register before submission to the meeting of the Governing Body. The intended addition related to the risk of the College not being sufficiently innovative and responsive in terms of its curriculum offer, and the risk of fee income falling as a consequence. This was a risk that the Group did not feel was explicitly covered in the

current version of the Register, and the Vice Principal suggested that it should carry a Medium to High risk rating, as the impact would be significant though not immediate.

The Vice Principal brought the Committee's attention to discussion at the previous meeting relating to a recommendation by the Internal Auditor that the scale for scoring risk should be reviewed. It had been noted that the original risk score and the retained risk score were often the same, suggesting that either controls were not sufficient to mitigate risk or that the retained risk had not been appropriately scored. The Committee had agreed to consider a five-point scale for scoring risk, and a new scale had therefore now been applied to the Risk Register as presented for review. The new scale took into consideration both the significance and immediacy of likely impacts.

The Committee reviewed the Risk Register in detail, including each of the risk ratings, making the following suggested amendments in relation to each risk area:-

a) Long term Strategic Planning is limited to a short-term purview.

- Actions should also include the recent Internal Audit review of information provided to Governors.
- The Committee considered that the Current Control and Monitoring Procedures could more fully reflect Governors' participation in the strategic the development of a new strategic plan - an incremental process, much more involved than Governors merely being presented with a completed draft plan for approval.

b) Poor decision-making on the part of the Governing Body.

- The Comments should reflect the fact that the Governing Body is supported by a strong, well established and trusted senior management team.
- Reference should also be made to the responsiveness of the Governing Body to changes arising from the appointment of a new Chair.

c) Withdrawal of or substantial decrease in public funding.

- The importance of ensuring that the SFA has an appreciation and understanding the College's particular circumstances should be more specifically stated.

d) Failure to generate sufficient income

- No changes recommended.

e) Failure to provide adequate quality of provision.

- Reference should be made to the very significant amount of work undertaken by the CLT, as reported to and relied upon by the Quality & Standards Committee, as assurance that appropriate activity is taking place.

f) Inadequate competence of staff (including key senior staff).

- Risks arising from the current restructuring, and the need to have good communication processes in place to mitigate these, should be included. The Committee noted also the specific risk arising from the changes to the leadership of the MIS team.

g) Assets inadequately safeguarded.

- No changes recommended. The Committee questioned, however, when the College last undertook a full fixed asset physical check. The Vice Principal advised that it was the College's practice to rely on checks undertaken as part of the Financial Statements Audit.

h) Major event.

- Health & Safety Committee reporting to the Finance & Resources Committee should be moved to the column headed Current Control & Monitoring Procedures.

i) Acquisition of BEC.

- No changes recommended.

The Committee also questioned and reviewed the rationale behind individual risk ratings, which the Vice Principal explained, e.g. for Long Term planning, the rating of 4 reflects the fact that, whilst risk impact is assessed as significant, the impact would not be immediate.

The Committee agreed the Risk Register, subject the suggested revisions and the addition of the item relating to responsiveness of the curriculum, to go forward to the forthcoming meeting of the Governing Body. The Clerk advised that it was the intention to include Risk Management as a specific agenda item for that meeting, in order to facilitate a full discussion.

Actions:-

i) Risk Management Policy and Risk Management Summary to go forward to the July meeting of the Governing Body for approval, with a specific agenda item on Risk Management.

7. Review of Audit Committee Terms of Reference (GC)

The Committee reviewed the Terms of Reference, presented by the Clerk for periodic review, with a number of suggested minor amendments. With regard to membership, the Committee considered that this should be stated as a minimum of three, in line with the College's Memorandum & Articles of Association. Subject to this alteration, the Committee agreed to recommend the updated Terms of Reference to the next meeting of the Governing Body for approval.

Action:- Proposed revised Audit Committee Terms of Reference to be submitted to the July Governing Body meeting for approval.

8. Any Other Business

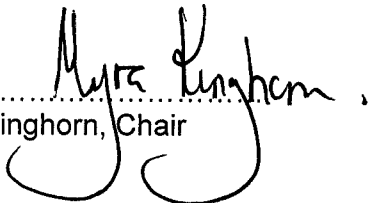
The Chair noted that this was to be David Leighton's final meeting of the Committee, prior to the end of his term of office as Governor. On behalf of the Committee, she thanked David for his substantial valued contributions throughout his period as a member of the Committee.

9. Date of Next Meeting

The Clerk advised that draft dates for next year's Committee meetings had been proposed and were currently being considered by Committee Chairs. The proposed date for the next meeting of the Committee was Tuesday 22 November. However, difficulties had been expressed with that date and a new revised date of Tuesday 29 November was proposed, subject to final confirmation

Action:- Clerk to follow-up proposed change of date of the next meeting of the Committee to Tuesday 29 November.

Graham P. Cooper
Clerk to the Governing Body

Signed.....
Myra Kinghorn, Chair