



**Minutes of a Meeting of the Audit Committee
held in the Moat House at the Sutton Coldfield Campus
on Monday 7 December 2009 at 8.30am**

Present:

Mr S Sharma (Chair)
Mrs C Braddock (Principal)
Mr K Culliford (KC)
Ms M Dufaye (MD)
Ms J Richard (JR)

In attendance:

Mr S Clark (KPMG) (SC)
Mr S Ranu (KPMG) (SR)
Mr S Winter (Tenon) (SW)
Mr J Creed (Tenon) (JC)
Mr N Coleman (Zurich) (NC)
Mr N Davies (Executive Director of Business Development) (ND)
Mr C Hill (Executive Director of Support Services) (CH)
Mr B Pattni (Executive Director for Finance and Data Management) (BP)
Mrs C Bennett (Clerk) (CEB)

Apologies:

Apologies were received from Mr B Gambles and Mrs C Levine.

Item 1 - Minutes of the meeting held on 30 June 2009 (verbal report given at Corporation meeting on 9 July 2009)

BP explained that due to the change over in clerks, the minutes had not yet been prepared for the meeting that took place on 30 June 2009. It was agreed that these minutes would be made available at the next Committee meeting taking place on 4 March 2010.

Item 2 – Risk Register

ND presented this item. He referred the Committee to the Risk Register and pointed out that it was a live document containing the biggest risks to the College, although they were not in any particular order. ND led the Committee through each risk and provided an explanation where questions arose. ND also provided an explanation of the scoring. ND informed the Committee that the College's internal auditors (Tenon) had seen the Risk Register in the past but had not seen the current version. ND proposed that

Tenon be engaged to critically review the Risk Register to ensure that the College's risk profile is accurately reflected and this was agreed by the Committee.

Resolved:

Following review, the Audit Committee agreed to recommend the Risk Register to Corporation.

Item 2 – Insurance Claims Report

This was a confidential item.

Item 3 – Internal Audit Reports

SW and JC of Tenon (the College's Internal Auditors) presented this item. It was decided from the outset that given that there were a number of categories to the internal report and a report for both SCC and MBC, discussions would be kept brief and only the main findings would be highlighted.

As a general comment, JC explained that due to the merger, timing was an issue in carrying out the reports but he would highlight this in more detail where necessary.

(i) Human Resources for SCC and MBC

JC led the Committee through both HR reports for each college. JC said that both reports are almost identical and because the HR departments were going through a process of harmonisation, it was almost impossible to make comparisons.

In both cases four key recommendations were put forward by Tenon:

- (1) Department Heads be set a target of ensuring 90% of staff appraisals take place and a Key Performance Indicator be set for all managers responsible for completing staff appraisals.
- (2) Training to be undertaken with all managers involved in the recruitment process to ensure they are aware of legislative requirements and college best practice and policy.
- (3) Prior to devolving full staff development to directorates, the training and systems procedures structure to be considered in detail.
- (4) Following formal approval of the merger, the College to commence reporting and monitoring of Equal Opportunities and develop action plans in accordance with Gender Equality requirements.

It was made clear to the Committee that these are only recommendations.

JR asked whether there was a lack of resources in HR. In relation to appraisals, the Principal explained that as matters stood the 90% target for all staff was unachievable and instead the College is working towards 90% of academic staff first followed by non-academic staff.

In terms of overall assurance, JC explained that Tenon graded HR in both Colleges as reasonable. He went on to say that it was the lower end of reasonable but the reason for this is that HR is such a critical area. JC added that this is by no means unsatisfactory and whilst there is room for improvement, it was recognised that the merger had definitely had an impact.

It was noted that it was not for the internal auditors to come up with a system. This was the College's role that the auditors would then comment upon.

In terms of reporting to Corporation, it was agreed by the Committee that Tenon had provided reasonable assurance in terms of HR but there were significant recommendations, in particular in relation to appraisals. Management had in principle accepted all recommendations (although made the point that in terms of appraisals, 90% of all staff was unrealistic) and were in the process of implementing them.

The Chair agreed to report back to the Corporation on behalf of the Committee.

(ii) Funding Assurance Review Audit for SCC and MBC

SW presented these reports. Tenon examined the design and operation of both colleges' Learner Records system. In both cases Tenon provided "Reasonable Assurance" that the Learner Records system were operating effectively with no significant weaknesses.

In its summary for both colleges, Tenon recommended the following:

- (1) The College to ensure that planned start dates are consistent with actual start dates on the ILR;
- (2) For learners that have withdrawn, the College to review start dates on registers;
- (3) Where learners withdraw close to funding qualifying period date, learners reviewed to ensure data is consistent to the days recorded on the register;
- (4) The College to ensure that no double-funding errors occur;
- (5) The College to ensure it reviews the PDSAT reports and takes appropriate action where issues are identified.

The Chair asked management for their comments on the report. BP stated that once all data is on one platform, it should deal with some of the issues

arising. This also means that it will not be necessary to look at two reports in the future. A general discussion took place in relation to the recommendations amongst those present.

In terms of reporting to the Corporation, it was agreed by the Committee that the Committee was satisfied with the "Reasonable Assurance" provided by Tenon and that management were in the process of implementing processes in line with Tenon's recommendations that did not impact upon the College's year end financial statement.

The Chair agreed to report back to Corporation on behalf of the Committee.

(iii) Strategic Planning and Review for SCC and MBC

JC presented this item. Tenon examined both colleges' strategic planning framework and entailed both a review of the controls currently operating and an assessment of whether any efficiency enhancements could be made.

In both cases, Tenon provided Substantial Assurance and made no recommendations.

A general discussion took place amongst those present. The Chair concluded that it was very pleasing to hear what management had done. The Principal said that this was an area that reflected what the College was trying to achieve. By getting the strategy right, operations should follow. Whilst the College will hit obstacles, it is on the right road.

The Chair agreed to report back to Corporation on behalf of the Committee.

(iv) Estate Management / Planned Maintenance for SCC and MBC

JC presented this item. In SCC's case, Tenon provided reasonable assurance and in the case of MBC, Tenon provided substantial assurance with no low level recommendations being given. In both cases, the following recommendations were made:

- (1) Systems be developed / amended to enable detailed budgets to be developed and monitored for the academic year 2009/10. (It was noted that these issues were known to management and developments were in hand).
- (2) In view of recent developments in LSC capital funding, long term Planned Maintenance Programmes ("PMP's") be developed over time.

When going through the report, management gave explanations of issues that had arose and how they had been rectified or are in the process of being rectified. Both BP and CH explained that in term of actual and potential spending, it was always known what was being spent but alignment of the codes made it clearer.

A general discussion took place in relation to ensuring that the College got value for money for small contracts.

The Chair agreed to report back to Corporation on behalf of the Committee.

At this point ND left the meeting.

(v) Major Capital Project for SCC

SW presented this item which related to the review of the College's capital project planning arrangements in respect of the proposed Riverside arrangement. He led the Committee through the report and explained that Tenon had provided Substantial Assurance that the areas tested during the audit were operating effectively with no significant weaknesses.

Tenon made one recommendation that the Accommodation Strategy be updated to take into account the delays in the delivery of the Riverside Project and the alternative options available.

It was noted that the report was reflective of the time when it was produced and that things were very different now in terms of LSC funding.

Those present had no additional questions and the Chair agreed to report back to Corporation on behalf of the Committee.

(vi) Annual Internal Audit Report 2008/09

JC presented this item which related to a summary of the findings of the internal audit work that Tenon carried out during the period 1 August 2008 to 31 July 2009.

JC led those present through the report and explained that there were some less serious issues to address as outlined in the report. Overall however, Tenon could provide Reasonable Assurance for both colleges. JC explained that it is not possible to give a higher assurance than Reasonable Assurance as this is in line with the requirements of the ACoP.

A general discussion took place and it was noted that the College has made good progress since these reports were produced.

The Principal made the point and a discussion followed that it may be necessary to change the focus of the annual report from looking primarily at financials to looking more at strategic risks that are not reflected. For example, the internal auditors never examine or review leadership and management direction. The Chair stated that we need to look more closely at how strategy is reflected in the audit plan.

Following the discussion, the Chair agreed that he would report back to the Corporation on behalf of the Committee.

At this point it was deemed appropriate to look at item 4 (viii) before item 4 (vii).

(viii) Follow-up of previous recommendations for SCC and MBC

JC presented this item and explained that the objective of this audit was to provide management and the Audit Committee with independent assurance on whether the progress of implementation of recommendations was satisfactory in the context that there is no significant risk to the College being able to meet its strategic aims. In the case of both colleges, Tenon provided Substantial Assurance.

Various recommendations were collated in the report although it was noted that since the reports were produced, management had addressed many of the recommendations.

The Chair stated that the Committee would like to see a more detailed and up to date report of what recommendations have been implemented and therefore do not need to be included on the follow-up report.

The Chair agreed that it would report to the Corporation on behalf of the Committee.

(vii) Audit Needs Assessment and Annual Plan 2009/10 for BMET

JC presented this item and explained that its purpose was to provide for the Committee's consideration an audit needs assessment for the proposed three year cycle and a plan for next year's internal audit programme within the context of an audit strategy.

It was made clear by JC that the Committee only needed to approve the plan for the current academic year 2009/10. There is no expectation for approval for 2010/11.

The Chair stated that two issues need to be addressed. Firstly, the plan needs to strike the appropriate balance of examining strategic risks against financial risks as discussed earlier. Secondly, it needs to adequately cover what we need it to, in terms of LSC requirements.

This led to a discussion amongst those present about the allocation of days to reviewing particular risks and it was decided that these days could be moved around if necessary to strike the correct balance.

In addition, a discussion followed about ensuring that the Risk Register is reviewed and compared with this plan given that they are interlinked and in order to ensure that the College is looking at the right issues and taking into account any LSC guidance.

The Chair asked JC and SW when the plan needs to be approved and they confirmed that it would need to be approved subject to any amendments to the Risk Register.

The Internal Audit Plan was accepted and it was agreed that it would be recommended to Corporation.

At this point the Principal left the meeting.

Item 5 – External Audit Reports

(i) Management Letters for SCC & MBC

This item was presented by SC of KPMG, the College's external auditors. SC led those present through KPMG's report, the purpose of which was to set out certain matters which came to their attention during the course of their financial statement and regularity audits of both colleges for the y/e 31 July 2009.

In the case of both colleges, the financial statements and results were very positive. In the context of the sector, the College was very strong in terms of income/profit etc.

SC explained that the accounts cannot be signed off until the key document is received from the LSC although SC stated that he did not expect KPMG's view to change as set out in their report.

JR asked about how pension liabilities could affect the College's finances. There was a general discussion in relation to this and it was noted that a number of colleges are paying stepped up contributions in an attempt to improve pension deficits. Further, it was noted that Birmingham City Council could ask colleges to make these greater contributions. The overall outcome of the discussion was that public sector pensions were a wider issue to be addressed sooner rather than later by government.

Further discussions took place in relation to certain aspects of KPMG's report including the College's fees policy in terms of refunds and holding inherited liabilities.

Resolved:

The Committee noted KPMG's report and recommended that Corporation receive it.

(ii) Letters of Representation

BP provided the letters of representation for each college for note. BP explained that they had already been approved by the Strategy, Finance and Business Development Committee along with the accounts.

The Chair led those present through the letters of representation and discussion and clarification was provided where necessary. Minor amendments were identified which KPMG agreed to rectify and then email through amended versions.

Resolved:

The Committee recommend to the Corporation that the letters of representation be sent.

Any Other Business

There was no other business.

Date of Next Meeting:

4 March 2010.

The meeting closed at 11.15am.

Signed S. Sharpe Chairman

Dated 22/6/10