



**Minutes of the Audit Committee Meeting  
held on Tuesday 30 November 2010 in the Moat House Boardroom,  
Sutton Coldfield campus at 8.30am**

**Present:**

Mr S Pearce (Chair)  
Ms S Davis (SD)  
Mr G Evans (GE)

**In Attendance:**

Mr C Hill (Executive Director Support Services) (CH)  
Mr B Pattni (Executive Director Finance and Resources) (BP)  
Dr R Minett (Executive Director Academic Affairs) (RM)  
Mr J Creed (Auditor, RSM Tenon) (JC)  
Mr S Winter (Auditor, RSM Tenon) (SW)  
Mr A Argyle (Auditor, KPMG) (AA)  
Mr Z Limbada (Auditor, KPMG) (ZL)  
Ms C Bennett (Clerk to the Corporation) (Clerk)

**Apologies for Absence**

Dr C Braddock (Principal)  
Venita Vickery (Baker Tilly) (VV)

There were no Declarations of Interest.

The Chair welcomed back the Clerk to the Corporation following a period of maternity leave.

**Item 1 - Minutes of meeting held on 25 June 2010**

1.1 Four minor amendments were outlined by the Chair:

- the first being that the word, "final" should be replaced with the word, "following" on the third paragraph of item 1,
- secondly the word "balance" should be replaced with the word "internal audit plan" at 9.6,
- thirdly amending the word 'a' to 'provided' in paragraph 2.2 following the word 'Tenon'; and finally
- Paragraph 9.6, changing the word 'committee' to 'plan'.

1.2 CH confirmed that the data was taken to the Employment Committee as set out in paragraph 4.2.

- 1.3 BP reported that the issue relating to the VAT increase was reported to the Strategy, Finance and Business Development Committee as part of the financial forecasts.
- 1.4 Subject to the two amendments referred to in 1.1 above, those of the Committee and staff present at the meeting on 25 June 2010 confirmed that the minutes were a true and accurate reflection of that meeting.

### **Matters Arising**

The Chair noted the report on follow-up actions (Item 5 vii). He requested that the high risk items are presented at each audit committee for review in order to assess their progress moving forward.

The Chair stated that the issue of fraud should be a standing item and asked the Committee and those present to declare whether there were any issues of fraud that need to be brought to the Committee's attention. There were no declarations.

Further, the Chair stated that it was good practice for the Committee to meet auditors without officers present and suggested that the Committee do this at least once a year, presently planned for the meeting prior to the receipt of the External Audit Management Letter.

### **Item 2- Draft Terms of Reference for Audit Committee**

- 2.1 The Chair asked those present for comments on the draft terms of reference. Suggestions for amendment included the following:
  - updating the approval box,
  - make express reference to the Committee monitoring risk & fraud and actions to mitigate,
  - confirm the Committee's remit with regard to the risk register;
  - confirm the Committee's membership and attendees;
  - the Committee should have 4 rather than 3 meetings each year due to the volume and timing of business;
  - the Committee should meet at least once a year with the College's auditors without management present; and
  - review drafting in light of changes in the Corporation's Corporate Governance (maximum term of office for Governors).
- 2.2 The Chair suggested that the Committee meet to review its terms of reference whilst they are being currently reviewed and before they are finalised. This will be fed into the Corporation's Governance Task and Finish working group. This will include the formulation of a forward plan for the Committee.

### **Item 3 – Risk Register**

- 3.1 This item was presented by BP. He informed the Committee that the Risk Management Policy is currently under review following guidance

on the strategic direction of the new board of governors, consultancy on the College's performance management system and the departure of the Executive Director overseeing this area.

- 3.2 BP described to the Committee how the Risk Register currently works and gave the Committee an overview of the high level College risks for the year 2010/11 and how these risks had been responded to by management.
- 3.3 The Chair asked members for their questions and a detailed discussion took place about the need to link risks with the College's strategic objectives and not just day to day risks. GE also suggested that the Risk Register needs to be reviewed more than once a year. It was also agreed that the risk register needed to be more visually clear, using a colour format. CH added that the new risk register will be produced alongside the new strategic plan which is in a different more presentable form.
- 3.4 It was agreed by the Committee that the risk register be a standing item on the agenda and that Executive Directors would consider the detailed comments raised in the Committee in terms of revisions needed to risks.
- 3.5 RM added that it may be useful to have a breakfast briefing on the top 10 risks for the College. The Committee agreed this would be useful. The Clerk agreed to arrange a date for this briefing prior to the next Audit Committee meeting on 8 March 2010.
- 3.5 The Chair added that management needs to ensure that the definition of "risk" is correct and that the objective is not being identified as the risk but rather the risk is what happens if the objective is not met. BP said that the Committee's comments were very useful and would be taken on board when developing the new risk register.

**Resolved:**

**The Audit Committee reviewed the current Risk Register and agreed to recommend it to the Corporation subject to the review identified in Paragraph 3.1 and actions taken as a result of Committee comments.**

**Item 4 – Insurance Summary Report for BMET**

- 4.1 BP presented this item in VV's absence. BP stated that during the merger, the College had managed to secure an excellent deal in terms of its insurance cover. The College's insurance broker had prepared a report and BP led the Committee through the main findings of that report which confirmed that the College has adequate cover in place but needs to be continuously reviewed.
- 4.2 BP stated that some issues had been brought to the College's attention for example the need to ensure that where students go out for work

experience, the employer has relevant cover in place. BP also confirmed that a lot of vehicles have been leased rather than owned which effectively means two levels of cover.

- 4.3 GE asked about whether there was governor indemnity insurance in place. BP confirmed that there was and the Clerk confirmed that a copy of the policy had been provided in the Induction Pack. BP further confirmed that former governors are also covered.

## **Item 5 – Internal Audit Reports**

- 5.1 The internal auditors presented this item with management as and when required. The auditors suggested a slightly different order to that set out in the agenda looking at 09/10 reports first followed by 10/11.

### **i) Human Resources (Including Staff Development) Review**

- 5.2 JC presented this item and led the Committee through the report. He informed the Committee that overall the internal auditors were able to give management and the Committee Substantial Assurance that the areas of the control environment tested during the audit are designed and operating effectively with no significant weaknesses.

- 5.3 JC informed the Committee that when the initial report was carried out, two recommendations were made relating to having an up to date single central record in place and the appraisals system. JC confirmed that in the follow-up work carried out, the recommendations had been actioned by management in both of these areas.

- 5.4 The Chair asked if there were any questions. GE asked how appraisals are recorded if there is no centralised system. RM responded that it is dealt with at directorate level. Directors are asked to complete a form and submit it annually to confirm that all staff in their directorate have received an appraisal. RM also informed the Committee that there is a new performance management system being rolled out in the New Year initially for managers with a view to it being rolled out to all staff.

The Chair noted the substantial assurance on the HR and Staff Development review and asked management to bring forward proposals to ensure completeness of appraisals and how management would gain assurance from that process.

- 5.5 A detailed discussion then took place about whilst it is helpful to see so many substantial assurances, was this accurately reflective of the actual assurance that can be placed on systems. JC confirmed that the report presented to Committee was an accurate reflection of the system of control following management addressing some of the recommendations initially raised as part of the review. This accounted for the period of time that had elapsed between the original planned 'issue of final report', 30 July 2010 and the actual issue of final report,

19 November 2010. The Committee requested that the first report presented to management should be considered for presentation at the Audit Committee prior to the commencement of follow up work, requested by management, to confirm the recommendations made. The Committee recognised that these may have then been subsequently addressed by management and reviewed as part of a follow up review undertaken by the Internal Auditors. BP stated that the report is the result of how the findings have been built up over time rather than just a snapshot although agreed that the Committee's feedback was useful.

The Committee reflected that this would be assisted by planning four audit committee meetings in per audit year rather than three as currently indicated in the forward plan. The Clerk agreed to consider this as part of the Corporation's Governance review.

**v) Employer Responsive – Partnership Review**

5.6 SW led the Committee through this report. He stated that two reviews had been carried out. The initial review led to various recommendations being made but on a follow-up review, these issues had been addressed and the auditors were able to provide management and the Audit Committee with Substantial Assurance that the areas of the control environment tested during the audit are designed to and commented on the fact that a lot of work had been carried out since the initial recommendations were made.

5.7 The Chair asked for an update on the unsigned contract referred to in the report. BP stated that there was a letter of intent in place and contracts have now been signed. The Chair asked if there had been any claw back and BP confirmed that there had not.

**(vii) Follow-up of Previous Recommendations**

5.8 JC led the Committee through this report. He stated that there were 65 recommendations made, 38 had been implemented, a number had been superseded, a number were work in progress leaving a remaining 7 to be implemented. Two of these were considered medium risk (maintenance programme and the development and distribution of the IT disaster recovery plan).

5.9 GE asked about the IT Disaster recovery plan. CH said that there is an IT disaster recovery plan in place, but the College were taking the opportunity to harmonise a number of policies. CH also reported that the revised policy will be reviewed by the internal auditors in the next audit cycle.

**(vi) Annual Internal Audit Report 2009/2010**

5.10 This was presented by JC who stated that it was a culmination of 12 months of work which goes to the Skills Funding Agency. JC led the Committee through the report and confirming that the auditors could

provide management and the Audit Committee with reasonable assurance that the College's systems of internal control, governance and risk management were operating adequately and there were no instances where any breakdown of control resulted in a material discrepancy.

- 5.11 The internal auditors also assessed their own performance as the College's auditors and concluded that on the whole they all KPIs with the exception of meeting reporting deadlines which they classified as "mainly met".
- 5.12 The Committee had a detailed discussion about once again ensuring that the correct KPIs are being addressed given the high scorings, although they did confirm that the level of assurance (substantial in all cases) reflected positively on the college's system of internal control and in particular the work overseen by the Executive Director of Finance and Resources.

## **ii) Payroll**

- 5.13 JC led the Committee through this report and informed the Committee that an internal review had taken place throughout 2010/11 which a substantial audit opinion being issued and one recommendation being issued that had been implemented.
- 5.14 JC also led the Committee through the new format of reports now being produced making specific reference to the four point scale determining level of assurance. The Committee commented that it was clearer.
- 5.15 The Chair made reference to the auditor's standard wording on page 2 under "Limitations to the Scope of the Audit" which states, "our work does not provide assurance that material error, loss or fraud does not exist" and commented that this wording may need to be looked at going forward outside of the Committee meeting.
- 5.16 CH said that the Principal wanted him to put across one or two points in her absence at the meeting namely that a lot of time had been spent on improving payroll and how it links with investment.

## **iii) Safeguarding Review**

- 5.15 RM and JC led the Committee through this report and confirmed that the Corporation can take reasonable assurance that the controls upon which the organisation relies to manage safeguarding is suitably designed, consistently applied and effective.
- 5.16 RM informed the Committee that significant progress had been made by the College to implement and improve safeguarding strategies. RM then led the Committee through the main areas of progress.

- 5.17 CH added that the safeguarder at James Watt campus (Debbie Fletcher) was leaving at the end of the calendar year and Anna Green will be taking over her safeguarding role.
- 5.18 The Chair asked for confirmation of what the College's Safeguarding Policy covered and RM confirmed that it was children and vulnerable adults. CH added that it also extends to contractors and outsourced services.
- 5.19 The Chair asked if everyone has completed their safeguarding training. RM confirmed 100% (save for one or two individuals on long term sick or maternity but these will be picked up as and when they return). The Chair commented that the level of performance was, in their experience, excellent.

**iv) Financial Planning/Capital Expenditure**

- 5.20 JC led the Committee through this report and confirmed that the auditors could offer the Corporation substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.
- 5.21 The Committee discussed the findings and agreed that they were excellent. The Chair commented that it might be helpful to have a session solely on this area in order to assist the Audit Committee with understanding the level of detail required when reviewing these type of systems.

**(viii) Revised Audit Needs Assessment and Annual Plan 2010/2011**

- 5.22 JC led the Committee through this report informing them that it is the Audit Needs Assessment for the proposed three year cycle and a plan for the next year's internal audit programme within the context of an audit strategy. A detailed discussion took place amongst those present as to the scope of next year's internal audit programme and it was agreed that it was suitable.
- 5.23 The Chair thanked the internal auditors for all of their hard work.

**Resolved:**

**The Committee approved the internal auditors' review.**

**Item 6 – External Audit Reports**

**(i) Management Letter**

- 6.1 This item was presented by AA. AA made some general comments relating to the need for a Finance Director to be appointed and BP confirmed that this was in hand.

- 6.2 BP made specific reference to the second bullet point on page .4 of the Management Letter and confirmed that he and the external auditors are still looking at this as the percentage needs to be 100% in order to avoid any subsequent claw back.
- 6.3 AA then continued to lead the Committee through the Management Letter answering more specific queries from Committee members as and when required.
- 6.4.1 The Chair asked for it to be noted that the unadjusted differences are not in the letter.
- 6.4.2 The Chair questioned AA on the work undertaken and the assurances gained regarding the classification of Capital and Revenue, in particular, referencing the agreed audit adjustments following the presentation of draft accounts to the Auditors.
- 6.4.3 AA confirmed that the External Auditor had worked with the college to understand the classification of expenditure between revenue and capital and were comfortable that the revised set of accounts appropriately reflected the split of expenditure between revenue and capital.
- 6.4.4 The Chair questioned AA on the work undertaken to confirm appropriate impairments and revaluations were correctly reflected in the accounts.
- 6.4.5 AA confirmed that that they had undertaken sufficient work to conclude that there was not a need for an impairment review and this had been drawn in part by questioning management and their assumptions.
- 6.4.6 The Chair requested an amendment to Item 3 (Letter of Representation) on Page 1 to read, 'In particular the Board confirms that on the basis of reports received from the External Auditors, Internal , Management, other agencies and Management.'
- 6.4.7 AA said that they would review the changes but commented that the reflected standard wording issued by KPMG.

**ii) Letter of Representation for BMET**

- 6.5 AA led the Committee through this item which he stated confirms that the College is fully compliant with its legal and financial obligations.
- 6.6 AA explained that once the letter has been reviewed by the Audit Committee, the Audit Committee recommend it to the Chairman of the Corporation for signature.
- 6.7 The Chair stated that it would be useful to have a brief paper or update on fraud at each Audit Committee meeting. BP said that all budget holders complete a form on an annual basis to confirm that they are not

aware of any fraud. The Chair suggested this be briefly summarised at Corporation.

- 6.8 The Chair commented that the date needs to be updated to 16 December at beginning and end of letter.

**Resolved:**

**The Committee approved the Management Letter and Letter of Representation subject to the further work flagged by the External Auditors with regard to additional information. It was agreed to provide an update at the Corporation meeting.**

**iii) Audited Financial Statements for BMET year ending 31 July 2010**

- 6.9 BP led the Committee through the above financial statements. The Committee agreed they were an excellent set of accounts. For clarity, the Committee suggested that a comparator for the 'merged colleges' be included to make them more meaningful. BP confirmed that this can be arranged prior to Corporation.

- 6.10 A detailed discussion took place in relation to the accounts. All agreed they reflected a high level of financial performance and excellent financial management by the College.

**Item 7 – Submission of Financial Management Control Evaluation (FMCE) 2009/2010**

- 7.1 BP presented this item.

- 7.2 [The FMCE was discussed and would be available to the committee via the Sharepoint and would be referred to at the Corporation meeting.]

- 7.3 He informed the Committee that the evaluation relates to how the College self assesses itself. It is then reviewed by the internal and external auditors and then the SFA.

- 7.4 BP said that this will be for note only at Corporation.

**Item 8 – SFA Assessment of College Finances**

- 8.1.1 BP explained that the financial forecasts were submitted in July and are going to be resubmitted to include Harborne Academy. BP added that it is not known if there will be any claw back as yet. The SFA will then confirm the outcome.

- 8.1.2 The Chair commented that the letter received from the SFA reflected very well on the financial management and planning of the college.

**Item 9 – Annual Audit Report**

9.1 The Chair confirmed that he will be drafting this and it will be brought to Corporation for approval.

**Item 10 – Any Other Business**

10.1 The Chair requested that fraud be a standing item on each audit agenda. All present members of the management team, internal and external audit confirmed that there were no matters of fraud that needed to be brought to the attention of the Committee.

10.2 JC stated that the LSC Code of Practice sets out in its appendix business to be considered and it may be a useful guide if not used already.

**Date of next meeting: Tuesday 8 March 2011**

Signed (Chair).....

Date ..... 08 MARCH 2011