

**GOVERNING BODY
AUDIT COMMITTEE**

Minutes of the non-confidential section of the meeting held on Thursday, 26th May 2011 at 6:15 pm in the
Richmond Business School

Present:	Mr Kevin Finnigan, Chair Mr Manoj Nanda Ms Amanda Rowlatt [items 5 to 10] Ms Helen Szyra Mr Phil Cutts, Non-Governor Member
In attendance:	Ms Judith Potter, Vice Principal (Finance and Corporate Services) Ms Gabe Flint, Vice Principal (Curriculum & Quality) Ms Grozdenka Mateeva, Finance Officer Mr Mike Cheetham, Head of IAS, RSM Tenon Ms Judith Newton, Audit Partner, Grant Thornton UK Mr Paul Coveney, Clerk to the Governing Body and College Secretary
Apologies:	Ms Christina Conroy, OBE, Principal & Chief Executive

Part I (Non-confidential items)

1. **MINUTES** of the previous meeting on 10th March 2011 were approved as a correct record and signed by the Chair.

2. **MATTERS ARISING**

Item 2: the Chair confirmed that he had written to Cindy Rampersaud, thanking her for her contribution to the work of the Audit Committee.

Item 4: Mike Cheetham reported that the draft Part 2 Joint Audit Code of Practice had not yet been issued by the funding agencies.

Item 5: the Clerk confirmed that he had received a corrected version of the Internal Audit report.

Item 6: the Clerk reported that the risk management had been approved by the Governing Body at its meeting on 31st March 2011.

3. **DECLARATIONS OF INTEREST**

Paul Coveney reminded the Committee that, as Clerk to the Governing Body & College Secretary, he might have an interest in matters discussed under item 4, in which case he would leave the meeting while such matters were discussed.

Phil Cutts informed the Committee that he had started a new job, and would complete a declaration of interests accordingly.

Clerk

4. **RSM TENON INTERNAL AUDIT ASSIGNMENT REPORTS**

a) **Report on the internal audit visit of April 2011**

On behalf of RSM Tenon, Mike Cheetham summarised the report: there were no recommendations relating to governance, and one medium recommendation relating to risk management. Auditors would always expect to find some issues with learner number systems, and this visit was no exception, but there was nothing of particular concern, when compared with previous visits. There was one high priority recommendation relating to HR: this referred to the recently introduced appraisal policy. The Vice Principal (Finance and Corporate Services) informed the Committee that part time sessional tutors had not previously been subject to annual appraisal: c. 200 (from a bank of c. 400) were active in an academic year, and appraising such a large number in the appraisal window of January to March had proved problematic for the small number of academic managers. The Vice Principal (Curriculum & Quality) added that the College was investigating other possibilities, such as linking appraisal to the annual lesson observations.

Mike Cheetham further reported that there was no cause for concern relating to follow-up of previous years' recommendations: five out of thirteen were in progress, while four were implemented and four were no longer applicable.

The Committee noted that there was a formatting error in section 1.10 of the report: RSM Tenon would provide a corrected version. The Committee further noted that, with reference to the risk management recommendation, the termly review and update of performance indicators would not be fully effective until the risk register had itself been reviewed.

MC

The Committee noted the report on the internal audit visit of April 2011.

b) Report on Information Technology (IT) strategy and governance – April 2011

Mike Cheetham summarised the report, which contained no surprises. It was recognised that the IT operational plan could not be developed until the IT strategy had been fully developed.

The Committee noted the management comment that progress should be reported to the Finance & Resources Committee: the terms of reference of that Committee would benefit from a review to ensure that they adequately reflected this requirement.

Clerk

The Committee noted the report on IT strategy and governance.

5. INTERNAL AUDIT NEEDS ANALYSIS AND STRATEGY 2011/12

On behalf of RSM Tenon, Mike Cheetham advised the Committee that the format of the report was slightly different from previous years, but the content addressed the same issues.

The Committee considered that the proposed risk based coverage took account of three of the four most significant risks on the risk register, and concentrated on those to which the Internal Audit Service could add most value. The Vice Principal (Finance and Corporate Services) agreed that the timing of the visits over the three years of the strategy reflected appropriate points in the development of the College's plans to assess whether the risks were being managed effectively. On behalf of Grant Thornton, Judith Newton asked whether the audit of financial planning could be conducted during the Autumn term, in order to inform the Governing Body's view of the College as a going concern in time for its December meeting: the Vice Principal (Finance and Corporate Services) would review the feasibility with both auditors.

JP

The Committee considered that there did not appear to be any significant gaps in the audit coverage, and noted that the plan could be reviewed in-year if circumstances so required.

The Committee considered that the level of audit resource (which had been agreed between the College and the IAS) was appropriate, and was consistent with expectations from 2010/11.

The Committee considered that the plan for 2011/12 reflected the areas that should be covered as a priority, and noted the recommendation regarding the timing of the financial risk management audit, as noted above.

The Committee considered that the strategy adequately addressed the emerging issues identified in the strategy report: safeguarding had been rated as Good by Ofsted, a revised data protection policy would be considered by the Employment & Organisational Development Committee at its meeting on 7th June 2011, and the College regularly monitored the utilisation of its 31 permanent academic staff.

The Committee recommended the internal audit needs analysis and strategy for 2011/12 for approval by the Governing Body.

Clerk

6. FINANCIAL STATEMENTS AUDIT STRATEGY 2010/11

On behalf of Grant Thornton, Judith Newton summarised the proposed audit strategy. While payroll would be audited in detail, it was not considered a key audit risk as it was considered unlikely that there would be any material errors. Funding was a continuing issue for the sector, but it was hoped that there would not be material errors leading to unforeseen clawbacks. The audit issue related to the carrying value of property was intended to determine whether the balance sheet was reasonable, taking into account any information which came to light after the balance sheet date.

FRS17 valuation continued to represent a very large number, over which the College had little control: Grant Thornton would contact the Vice Principal (Finance and Corporate Services) immediately if it had any significant concerns about the assumptions used by the actuaries in arriving at the valuation. The Committee noted that there were

GT

<p>new International Standards on Auditing (ISA's) which required actuaries to provide more information than previously: some actuaries were charging for this additional information, despite the fact that they should not be doing so. The Vice Principal (Finance and Corporate Services) should inform Grant Thornton if the actuaries tried to charge in this respect.</p>	JP
<p>Judith Newton said that she would contact the Chair of the Audit Committee immediately if a need to revise the audit programme arose during the audit itself.</p>	GT
<p>The Committee noted that Grant Thornton, in response to the economic recession and government policy to reduce the public sector borrowing requirement, expected the College to follow the guidance the Financial Reporting Council issued in 2009 on going concern. Grant Thornton had no reason to be concerned at this stage.</p>	
<p>The Committee noted that the requirement was to show that the College had sufficient funds to cover its liabilities for a period of 12 months from the date of signature of the 2010/11 accounts: in practice the College should take a view to the end of the 2012/13 financial year. The process for undertaking this was the responsibility of the Audit Committee, while scrutiny of the actual figures was the responsibility of the Finance & Resources Committee.</p>	Clerk Clerk
<p>The Governing Body should ask the Finance & Resources Committee to submit a paper to its December 2011 meeting.</p>	Clerk
<p>The required forecast would be a cash flow forecast to 31st Jul 2013, with a statement of the key assumptions and an overall sensitivity analysis, especially in the case of any particularly aggressive or optimistic assumptions.</p>	
<p>The Committee noted with gratitude Judith Newton's offer of Grant Thornton's assistance to the Vice Principal (Finance and Corporate Services) if she needed any assistance in preparing the required papers.</p>	
<p>On behalf of Grant Thornton, Judith Newton asked the Committee whether it was aware of any issues that were not written down, or whether there were any suspicions of fraud.</p>	
<p>The Committee replied that it was not aware of any further issues. The Clerk added that the College Whistleblowing procedure (as set out in the Financial Regulations) required that he be notified on any disclosures under the procedure: he had received no such notification. The Committee requested that these questions be taken as a standard agenda item for all meetings of the Audit Committee (but were not needed for the next meeting).</p>	Clerk
<p>The Committee was content with Grant Thornton's communication with those concerned with the governance of the College: the College would inform Grant Thornton before their audit visit in the Autumn 2011 term of any further areas it would like them to address in the audit.</p>	JP
<p><i>The Committee recommended the Audit Approach Memorandum for the year ending 31 July 2011 for approval by the Governing Body.</i></p>	Clerk
<p>7. LETTER OF ENGAGEMENT FOR THE FINANCIAL STATEMENTS AUDITORS</p>	
<p>On behalf of Grant Thornton, Judith Newton advised the Committee that the changes in the letter of engagement arose from clarity provided in the new ISA's, and also reflected modifications consequent on the Machinery of Government changes in the Apprenticeships, Skills, Children and Learning Act 2009. Most of the changes represented the inclusion in the letter of practice already followed by the auditors.</p>	
<p>The Committee noted the section of the letter which related to reports to those charged with governance.</p>	
<p>The Committee asked whether this was now a standard letter, to which Judith Newton replied that it was.</p>	
<p><i>The Committee recommended the financial statements auditors' letter of engagement for approval by the Governing Body, and signature by the Chair.</i></p>	Clerk
<p>8. RISK MANAGEMENT</p>	
<p>As College Secretary, Paul Coveney summarised the risk management position as shown on the College risk register.</p>	
<p>The Committee noted the recommendation and planned management actions relating to risk management as considered under item 4 (a) of this meeting: the College would review the format of the risk register, with a view to defining simple and measurable performance indicators, and the key actions required to secure improvements in those indicators. The Committee requested that this review should recognise the possibility of</p>	PC PC

new risks arising in year.

The Committee noted that any question as to whether the College had enough reserves to cover the costs of closing down would be considered as part of the going concern assessment as considered under item 6.

The Committee noted the risk management report.

9. **AUTUMN TERM 2011**

The Committee recognised that the planned approach to the development of the Audit Committee annual report to the Governing Body and the Principal for the year 2010/11 assumed that the projected Corporation meeting dates were confirmed in the programme of meetings for 2011/12: in the event that the meeting dates were not as envisaged, then consequential adjustments to the timetable would be made by consultation between the Vice Principal (Finance and Corporate Services) and the auditors.

Subject to the above, the Committee confirmed the proposed arrangements for its annual report for 2010/11 to the Governing Body and the Principal.

10. **ANY OTHER BUSINESS**

There was none.

The meeting ended at 7:45 pm

CHAIR