

GOVERNING BODY AUDIT COMMITTEE

Minutes of the non-confidential section of the meeting held on Tuesday, 18th May 2010
at 6.15 pm at Parkshot

Present:	Mr Kevin Finnigan, Chair Ms Cindy Rampersaud Mr Sebastian Scotney Mr Duncan Faircloth, Non-Governor Member
In attendance:	Ms Judith Potter, Vice Principal (Finance and Corporate Services) Mr Mike Cheetham, Head of IAS, RSM Tenon Ms Judith Newton, Audit Partner, Grant Thornton UK Ms Ann Tomkins, Audit Manager, Grant Thornton UK Mr Paul Coveney, Clerk to the Governing Body and College Secretary
Apologies:	Mr Chris Williams Ms Christina Conroy, OBE, Principal & Chief Executive Ms Gabe Flint, Vice Principal (Curriculum & Quality)

The meeting remained quorate throughout.

Before opening the meeting, Kevin Finnigan advised the Committee that he had agreed, at the request of the Chair of the Governing Body, to become the Chair of the Audit Committee for the remainder of 2009/10, following the resignation of Robin Jowit.

All present introduced themselves.

Part I (Non-confidential items)

1. **MINUTES** of the previous meeting on 11th March 2010 were approved as a correct record and signed by the Chair.
2. **MATTERS ARISING**
 - Item 2: The Clerk reported that the IT investment strategy had been approved by the Governing Body on 31st March 2010, after scrutiny by the Finance & Resources Committee on 18th March 2010.
 - Item 2: the Clerk reported that the College response to the ACoP consultation (Part 1) had been submitted on time. Mike Cheetham reported that Part 1 was still out for consultation. Following the recent political changes, it was not expected that the Part 2 consultation would be drafted for some time. In the meantime, the current Audit Code of Practice still applied. Judith Newton added that Grant Thornton agreed with this assessment.
3. **DECLARATIONS OF INTEREST**

There were none.
4. **RSM TENON INTERNAL AUDIT REVIEW MAY 2010**

Mike Cheetham emphasised to the Committee that the report was a draft following the very recent IAS audit visit, and was subject to comment by the College management. Referring to learner number systems, he reported that there were some data errors, but there had been a significant improvement by the College, with no major recommendations; announcements were expected in the near future about a round of SFA audits on 09/10 data. The Committee asked where the need for these audits had arisen, to which Mike Cheetham replied that they had been in existence since the founding of the LSC, and that recent well-publicised issues in Higher Education in similar areas had raised the profile again.

RSM Tenon had reviewed risk management, governance and long term planning for many of their clients this year, following the Machinery of Government changes: there were no recommendations for the College in this area.

With regard to Quality Assurance, there were no major recommendations.

The Committee asked how the grading system worked, to which Mike Cheetham replied that it was based on judgements by the auditors: the grades were Good, Satisfactory or Weak.

The Vice Principal (Finance and Corporate Services) reported that the College wished to discuss the draft report with RSM Tenon. The Committee requested that the final report be presented to its next meeting.

JP

The Committee noted the draft Internal Audit review of May 2010.

5. INTERNAL AUDIT NEEDS ANALYSIS AND STRATEGY 2010/11

On behalf of RSM Tenon, Mike Cheetham advised the Committee that this had been developed in the context of the College's current situation, sector issues and planned major changes (for example in staffing). The plan for 2010/11 as set out in Appendix 1 was very much a draft, and would need to be modified to meet the needs of the College. Other than those parts of the plan which were mandatory, RSM Tenon's draft proposed to reduce the effort on significant partnerships (since the College expected to have only one of these next year), and included resources for IT systems and HR in particular, as there were significant changes planned in both areas.

The Vice Principal (Finance and Corporate Services) reported that the College agreed with RSM Tenon's risk assessment, but that the proposed plan was not all affordable. She asked whether there was scope to reduce the amount of effort devoted to the mandatory areas. For example, the College had implemented all previous recommendations on governance and risk management, and there were no further recommendations outstanding, and yet the plan showed 3 further days between these areas. Mike Cheetham replied that this could be reduced to 2 days on the assumption that RSM Tenon could rely on the judgement of Ofsted/SFA in the governance area.

The Vice Principal (Finance and Corporate Services) asked whether there was scope to reduce the effort on the core financial systems. The Committee asked whether this area was over-audited, to which Mike Cheetham replied that there was some flexibility, but this area was mandatory under the Audit Code of Practice, and that the financial statements and regularity auditors would normally rely on the IAS work. It was agreed to remove the 3 days planned for tuition fees, income and debtors, and devote effort to this area only if issues emerged from the main work on key financial controls.

With regard to core operational systems, it was agreed to remove the 2 days dedicated to the capital project, in recognition of the revised and more cautious approach now adopted by the College to the Clifden refurbishment, and Grant Thornton would pick up any control weaknesses in the capitalisation of the costs. On the other hand, it was agreed to increase the IT systems and security resources from three to four days, as this was an area of considerable and rapid change. The Committee asked whether it would be prudent to allocate some resource to procure and pay, to which the Vice Principal (Finance and Corporate Services) replied that issues in this area should be picked up in the key financial controls work.

The Committee noted that the changes as agreed above would reduce the total business days for the minimum business areas from 33 to 28, which was in line with the strategy approved by the Governing Body on 2nd July 2009.

With regard to the audit of learner number systems, the Committee asked whether there were particular times of year when these were particularly crucial, to which Mike Cheetham replied that RSM Tenon would work with the College Management to link in with the College's internal QA checks. The Vice Principal (Finance and Corporate Services) added that learner number systems always included an element of risk by their very nature and role in the College's funding. The complexity was enormous, covering hundreds of thousands of pieces of information: the value of audit was to introduce rigour, and to highlight some things of which the College was not aware.

The Committee considered the additional operational system reviews. Mike Cheetham stressed that this section of the plan related to what was seen by the College to be of value. The Vice Principal (Finance and Corporate Services) requested that the provision of £3,000 for Employer Responsive work should be removed at this stage, as any issues should be captured by the follow-up actions to earlier reviews. The College recognised that it would be prudent to engage some external technical help in selecting the supplier for the IT infrastructure refresh. It was agreed to treat this as a separate ad hoc item, and to withdraw it from the plan at this stage.

RSM Tenon agreed to provide a revised version of the plan, reflecting the agreed changes, to the Clerk by Friday 18th June, so that it would be in time for presentation to the July meeting of the Governing Body.

MC

Subject to the changes identified above, the Committee recommended the internal audit needs analysis and strategy 2010/11 for approval by the Governing Body.

6. FINANCIAL STATEMENTS AUDIT STRATEGY 2010/11

On behalf of Grant Thornton, Judith Newton advised the Committee that the strategy was a draft, and may need to be reviewed, if the need arose as the result of external circumstances. Grant Thornton would be working with RSM Tenon to see where it could place reliance on the work of the IAS. The draft contained one typing error: the figure of £2,1701 for regularity audit (page 6) should read £2,170, consistent with page 5. Grant Thornton would provide a corrected copy to the Clerk by Friday 18th June, so that it would be in time for presentation to the July meeting of the Governing Body

JN

The key audit issues were the capitalisation of costs incurred in the Clifden refurbishment, and verifying the quality of data underlying the College's funding.

There was also a potential issue concerning the FRS 17 actuarial assumptions. The Vice Principal (Finance and Corporate Services) reported that the College had already received a warning from the LGPS actuaries (Hymans Robertson LLP), which would be reported to the Finance & Resources Committee on 17th June 2010. It was agreed that there might be benefit to the College in asking Grant Thornton's actuaries to talk to Hymans Robertson to ensure that RACC was not disadvantaged by being treated in the same way as other members of the LBRuT LGPS, who were often very different in actuarial terms.

The Committee noted the projected timetable, which would also be relevant for item 8 on the agenda.

On behalf of Grant Thornton, Judith Newton asked whether the Audit Committee was aware of any fraud that had not been reported, to which the Committee replied that it was not.

The Vice Principal (Finance and Corporate Services) asked for an explanation of the rationale behind the increase in fees, which did not seem to be in the spirit of what the College was trying to achieve for 2010/11. Ann Tomkins reminded the Committee that Grant Thornton had not increased its fees in 2009/10 over the previous year. The proposed increase for 2010/11 was 3%, reflecting RPI. Mike Cheetham added that this was the same for RSM Tenon: audit rates were driven by underlying staff costs. The Committee asked whether there were any system changes which could reduce the amount of work (and therefore the cost) involved in the financial statements and regularity audit, to which Judith Newton replied that it was possible that in later years the College's proposed HR and IT changes might have such an impact: Grant Thornton would consider this in future years.

Subject to the change identified above, the Committee recommended the financial statements audit strategy 2010/11 for approval by the Governing Body.

On behalf of Grant Thornton, Judith Newton asked whether there were any other matters which the Audit Committee wished Grant Thornton to concentrate on, to which the Committee replied that there were not.

7. RISK MANAGEMENT

The Committee noted the risk management policy as approved by the Governing Body on 31st March 2010.

In considering the risk register, the Committee noted that the College had made progress in updating the performance indicators, although there remained work to be done. In several cases, there would be no value as at 1st August 2009, where the performance indicator was something which the College had not measured before. Also, many of the 2009/10 measures would not be known until after 31st July 2010. The Committee also recognised that the strategic objectives to which the risks related were for achievement over three years, of which 2009/10 was the first: it was unrealistic to expect the objectives to be achieved in the first year. The College would review the performance indicators in the light of the first year's experience.

PC

With regard to risk 15 (Organisational Development), the Committee asked whether the first action for 2009/10 (“To audit the College's performance in relation to organizational development systems with a Consultant commissioned by October 2009 and audit report completed by early 2010 with agreed KPIs”) had been actioned. The Vice Principal (Finance and Corporate Services) replied that this had effectively been replaced by the College restructuring which was currently under development: this was a different way of achieving the same outcome. The Committee asked whether the resulting organisation would be reported to the Employment & Organisational Development Committee. The Vice Principal (Finance and Corporate Services) replied that it would, and also to the Governing Body.

The Committee considered whether it was appropriate for risk 14 (Value for Money) to be shown as for scrutiny by the Audit Committee, when the Committee had asked to see the full risk register every term. The College Secretary suggested that, for 2010/11, particular scrutiny of risk 14 might be allocated to the Finance & Resources Committee, and the full register continue to be considered by the Audit Committee.

The Committee noted the risk management report.

8. AUTUMN TERM 2010

The Chair advised the Committee that the purpose of this item was to change the approach taken to the production of the Audit Committee annual report to the Governing Body.

The Committee supported the revised approach, and agreed the proposed timetable for production of its annual report to the Governing Body.

9. ANY OTHER BUSINESS

There was none.

The meeting ended at 7:30 pm

CHAIR