

AUDIT COMMITTEE

WEDNESDAY 13 JUNE 2012



GATESHEAD COLLEGE

Report: Minutes of the meeting held on Wednesday 14
March 2012

Author: Clerk to the Corporation

Action: Approve

Status: Open

Present: Allan Steele (in the Chair)
Susan Bickerton
Anthony Garnett

In attendance: Claire Leece (Baker Tilly)
Karen Finlayson (PWC)
Katie Reeves (PWC)
John Holt
Jackie Doxford

A/430 Welcome/Apologies

In the absence of Chris Macklin Allan Steele took the Chair. Allan Steele welcomed everyone to the meeting. Apologies for absence were received from Chris Macklin, Richard Thorold, Peter Gray (Baker Tilly) and Wayne Browne (PWC).

The Chair invited members to declare any interests on any item on the agenda. No interests were declared at this stage in the meeting; however, members noted that should the direction of debate on any item result in a potential conflict of interest this should be indicated during the meeting. Members were also reminded to advise the Clerk of any changes to be made to the declaration of interests.

A/431 Minutes of the meeting held on 5 October 2011

The minutes of the meeting held on 5 October 2011 were accepted as a correct record.

A/432 Matters Arising

A/424 Five Year Strategic and Operational Internal Audit Plan to 31 July 2016 – a member enquired whether a letter had been sent to the SFA to seek an opinion on revising the balance of the internal audit programme better to meet the current and future needs of the College. The Director of Finance indicated that a letter had not yet been drafted. Members were of the view that clarification should be sought from SFA before the audit plan for 2012 onwards is finalised.

A/433 Draft Minutes of the Joint Meeting of Audit Committee and Finance and General Purposes Committee held on Thursday 1 December 2011

The draft minutes of the joint meeting with Finance and General Purposes Committee held on 1 December 2011 were noted.

A/434 Matters Arising

There were no matters arising.

A/435 Internal Audit Progress Report

Karen Finlayson of PWC introduced a report which provided the Committee with a high level summary on progress against the Internal Audit Plan for 2011/2012. It was noted that three internal audit reviews: Key Financial Controls; Strategic Risk Management; and Corporate Governance had been completed since the Plan had been approved in November 2011. The remaining four reviews: IT Security and Recovery; Quality Cycle; Partnerships; and Follow up work are scheduled to take place in April 2012. There have been no variations to the agreed Plan which require Audit Committee approval.

Karen Finlayson sought comments on the scoping of the reviews scheduled for April 2012. It was suggested that the review of IT Security and Recovery should drill down into the detail e.g. firewalls. A view was expressed that the review on Partnerships should examine due diligence, audit arrangements for payments to partners and whether partners had sufficiently robust quality assurance arrangements in place.

RESOLVED to note the contents of the report

A/436 Internal Audit Reports

2012/01 Key Financial Controls

Karen Finlayson of PWC introduced a report of a review of the College's Key Financial Controls. The key financial risks reviewed included: loan covenant performance and reporting; monitoring sources of income; expenditure monitoring; payroll; and overall financial performance. The overall classification of the report was 'Low risk', there were three control design recommendations: one 'medium', one 'low' and one 'advisory'.

Four areas of good practice were observed during the review: financial regulations and key process maps to detail key financial procedures are in place; appropriate approvals were evident for opening and closing of bank accounts; key reconciliations for payroll, bank, accounts receivable and payable are performed monthly; and there was evidence of review and scrutiny of monthly financial performance by the Finance Manager, Director of Finance and Finance and General Purposes Committee.

The 'medium' recommendation related to the College's debt monitoring process where there are no specific requirements in place to ensure that a review of outstanding debts is performed on a regular basis. Specific time should be set aside on a regular basis, to meet the timetable of the College's business, for key personnel to conduct a review of debtor accounts and take the necessary actions to follow-up outstanding items. There should be documented roles and responsibilities to set out how much time each person should spend on debt management and the points in the year when this should take place.

The 'low' recommendation related to student debt reminder letters and the need for timeframes for sending reminder letters to students to be agreed and documented. The 'advisory' recommendation related to control account reconciliations: the review and approval of the accounts payable and accounts receivable reconciliations by the Finance Manager should be evidenced through a signature on the document and the date of the review should also be recorded to demonstrate that the review took place on a timely basis.

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There was discussion on the use of 'advisory' recommendations and a member suggested that something was either worth doing or not. Karen Finlayson explained that 'advisory' enabled PWC to highlight issues which are not substantial.

Members noted that the scheme of delegation for debt write-offs would be finalised in the next revision of the College's Financial Regulations.

RESOLVED to approve the contents of the report

2012/02 Corporate Governance

Katie reeves of PWC introduced a report of a review of the College's Corporate Governance arrangements. The scope of the review included: governance structure; committee responsibilities; Governor and Board development; and committee effectiveness. The overall classification of the report was 'Low risk'. There was one 'low' operating effectiveness recommendation.

Five areas of good practice were observed during the review: Standing orders document the College's corporate governance policy and compliance with the Instrument and Articles of Government; Committee terms of reference are maintained, reviewed and approved annually; there is an established and communicated target for governor attendance with performance monitored and reported annually; an annual Governance Health Check is undertaken to assess the perceived adequacy and effectiveness of the Board; and detailed minutes are recorded for each Board and Committee meeting with evidence that previous action points are followed up.

The 'low' recommendation was in respect of the production of a formal action plan to address the weaknesses identified in the report on Board and Committee attendance. A response to the recommendation had already been prepared by the Clerk at the request of Governance and Search Committee which reviews governance matters on behalf of the Board and was included in the report.

The Chair commented that the report was mechanistic and shallow and added that it was easy to fill a Board of Governors with people who have lots of time available but who may not have the skill sets to support and reflect a College which is very successful and undertaking interesting projects. Karen Finlayson explained that the review was not designed to look specifically at Governor attendance but had reviewed compliance against the Board's own procedures. A member commented that risk is where key members of a governing body are consistently absent and there is an assumption that they are behind the scenes making decisions. It would have been helpful if the report had given the Board credit for outcomes achieved although there were some attendance issues during the year.

RESOLVED to approve the contents of the report

2012/03 Strategic Risk Management

Karen Finlayson of PWC introduced a report of a high level review of the College's Strategic Risk Management arrangements. The scope of the review included: policies and procedures; identifying and recording risks; monitoring risks; project risks; and management information. The review focused on strategic risks of the College, it did not include operational risk management processes or any individual risk management procedures in place at any of the College's subsidiaries. The overall classification of the report was 'Low risk'; there were no recommendations.

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Five areas of good practice were identified during the review: the risk management policy details the risk management process and the roles of individuals with specific responsibilities; strategic risks arising from key areas of the College identified as part of the strategic planning process are documented within the risk management plan; responsible officers are assigned to each strategic risk and risks are monitored and reported to Audit Committee; there is an established scoring criteria for strategic risks, based on impact and likelihood; and risk assessments relating to the Test Track project were performed, reviewed and approved by the Finance and General Purposes Committee and the Board.

A member commented that this was a process oriented review and that, on reflection, it would have been appropriate for the Committee to have asked PWC to ask broader questions.

RESOLVED to approve the contents of the report

A/437 SFA Audit Report: ESF Project Number 137 – NEET

The Director of Finance introduced a report of an SFA Provider Financial Assurance audit of the College's contract for Project Number 137 – NEET. The overall value of the contract was £952,142 over a period of two years and the period audited was from February to December 2011. As a result of the review the auditors discovered an error of £200.00.

As a result of the audit the SFA concluded that the College has substantially met the contractual requirements attached to the payments and that it has used the money received from the SFA in a way that is consistent with the purposes for which it was intended. The College received a 'Satisfactory Opinion' on the use of the funds.

RESOLVED to note the contents of the report

A/438 Risk Management Plan

The Director of Finance introduced a report to which was appended a copy of the College's updated Risk Management Plan. It was noted that the Plan has been updated since the previous meeting of the Committee in October 2011 and has been reviewed by the: Director of Finance; Managing Director Business, Innovation and Development; Director of HR; Director of Learner Services; Data and Funding Manager; and Finance Manager. The Director of Finance explained that he had widened the scope to include more people and more risks around the College.

A member commented that it was good to learn that the Risk Management Plan is becoming embedded within the College. He expressed some concern that the Plan was now becoming a large document which may conflate issues and suggested that it may be appropriate to focus on the 'top ten' risks. He enquired about 'risk appetite' and asked what is acceptable as a net risk score. It was suggested that the use of colour may be helpful in understanding the Plan.

There was discussion on Risk 13 within the Strategic Objectives section of the Risk Management Plan: Failure to comply with all aspects of Health and Safety. A member suggested that the risk appetite should be very low. The Director of Finance explained that he had heightened the level of risk because there is always the 'stupidity factor' which can come into play when young people are in a workshop situation. He added that the college which kills its students is the college which is unlikely to survive. Board

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reporting covers trend analysis and details all aspects of Health and Safety issues. Another member expressed an interest in the visual representation of key risks e.g. something similar to the internal audit reports produced by KPMG.

RESOLVED to note the contents of the report

A/439 Draft Financial Regulations

The Director of Finance introduced a report to which was appended the draft Financial Regulations. He explained that the College's Financial Regulations are reviewed and revised on a regular basis and submitted to Finance and General Purposes Committee for approval. Recognising the experience and expertise within the membership of Audit Committee the College management invited comments and advice from Audit Committee on the most recent revision of the Financial Regulations so that any comments or amendments can be included before the draft is submitted to Finance and General Purposes Committee for approval.

It was noted that the Chair of Audit Committee had specifically requested sight of the draft before it is submitted to Finance and General Purposes Committee. Karen Finlayson of PWC agreed to review the draft and to provide comments and advice. Anthony Garnett also agreed to provide advice with regard to formulations of an Anti Bribery Policy and guidance on Gifts and Hospitality. It was requested that the advice should be forwarded to the Director of Finance and the Clerk.

RESOLVED to note the contents of the report

A/440 Other Business

Pension Auto Enrolment

A member enquired whether the College had any plans for pension auto enrolment. The Director of Finance confirmed that the Leadership Team had considered this.

A/441 Date of the Next Meeting

The next meeting will take place on Wednesday 13 June 2012.

ACTION LIST

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| A/424 | Clarification required from SFA re balance of audit plan 2012 onwards action by Director of Finance |
| A/436 | Internal Audit Report 2012/01 recommendations to be addressed by Finance Manager |
| A/438 | Risk Management Plan – use of colour coding to be considered by Director of Finance |
| A/439 | Financial Regulations – advice to be forwarded to DoF/Clerk by Karen Finlayson and Anthony Garnett |