

AUDIT COMMITTEE

TUESDAY 9 APRIL 2013



GATESHEAD COLLEGE

Report: Minutes of the meeting held on Wednesday 10 October 2012

Author: Clerk

Action: Approve

Status: Open

Present: Chris Macklin (Chair)
Anthony Garnett
Alex Rutherford
Allan Steele

In attendance: Katie Reeves (PWC)
Karen Finlayson (PWC)
Peter Gray (Baker Tilly)
Claire Leece (Baker Tilly)
John Holt
Rowan Ferguson
Gwyneth Jones

A/454 Welcome/Apologies

Chris Macklin welcomed everyone to the meeting, in particular the new Clerk, Rowan Ferguson, who had taken over the role on 1 October 2012. Apologies for absence were received from Richard Thorold.

The Chair invited members to declare any interest 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 in the declaration of interests.

A/455 Minutes of the meeting held on 13 June 2012

The minutes of the meeting held on 13 June 2012 were accepted as a correct record.

A/456 Matters Arising

There were no matters arising which were not substantive items on the agenda. A member enquired about the format of the Audit Committee minutes and suggested that they would benefit from having a list of Action Points.

A/457 Internal Audit Reports 2011/2012 – Capital Project Management

Katie Reeves of PWC introduced a report indicating progress against the Internal Audit Report for 2011/2012 – Capital Project Management which had been undertaken during July and August 2012.

The review of capital project management has focused on two specific projects that have recently been completed by the College. During 2011/2012 the Skills Academy for Sustainable Manufacturing and Innovation (SASMI) and the Construction Centre.

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These projects were selected for review by management due their significant size and value.

As part of this work, PWC reviewed the Capital Programme and Estates Strategy; Governance arrangements for the approval of projects; Project management plans and progress reports; and how lessons learned throughout the projects were taken forward. For both projects selected, progress against the Capital Programme had been presented at each Finance and General Purpose Committee and each Board of Governors. The minutes and papers for these committees were found to be comprehensive and offered a detailed status update as to how each project had progressed.

The review showed that the two projects appeared to have been well managed with several positive points including financial management of both projects was astute and they were both completed under budget; the College has well-established working relationships with MDA Consulting and other key contractors; progress against capital projects was regularly taken to the Board of Governors. Reports were detailed and it was clear that there were challenges in the early stages of the projects; both projects were aligned to the College's property strategy.

PWC found one area for improvement which related to the completion of post-implementation reviews. Although the SASMI Centre and Construction Centre were completed on time and within budget, there had been no post-implementation reviews undertaken for either of the projects by the College. PWC identified that lessons learned throughout the projects were communicated and taken on board for future decision making. However, they found that there was no holistic look back over the project to review the overall success and to see whether the expected benefits were achieved.

The overall classification of the report was 'Low risk' and the review highlighted the risk that future capital projects are not fully informed; resulting in insufficient planning for matters/difficulties that could be avoided. PWC felt that practical completion should not be the end of the project management process and recommended that for each capital project completed by the College, a post-implementation review is undertaken. This should be performed shortly after completion of the work so that feedback to key stakeholders is timely. The key elements to include in the post-implementation review may include: did the project deliver what was expected; has it solved the problem that was there; can anything be taken further to enhance benefits even more; what lessons have been learned and how can they be applied in the future. The results from such a review should be reported to the appropriate committee as part of the governance process.

A member enquired whether there had been a definition upfront of what would be beneficial to the College. The Director of Finance advised that a detailed appraisal of each of the projects had been undertaken beforehand and there was a need to look at the return of investment on all of the College's estates. The Chair indicated that part of signing off a project would be to look at the benefits to the College. The Director of Finance replied that at the present time the College could not measure noticeable impact but this should be seen by December 2012.

RESOLVED to note the content of the report

A/458 Internal Audit Report 2011/2012

Karen Finlayson of PWC introduced the Internal Audit Annual Report for 2011/2012. The work was carried out in accordance with the internal audit plan approved by the Audit Committee in November 2011. The plan was constructed in such a way as to allow PWC to make a statement of the adequacy and effectiveness of the College's risk management, control and governance processes. It was noted that in PWC giving their opinion that assurance can never be absolute. The most that the Internal Audit Service can provide to the Corporation is reasonable assurance that there are no major weaknesses in the College's risk management, control and governance processes. In terms of Operational assurance, the Internal Audit Service had reviewed and evaluated the College's processes and had concluded that the policies, procedures and operations in place were all adequate.

During the year PWC had completed six internal audits which had resulted in the identification of one high, eight medium and six low and one advisory risk findings to improve the adequacy and effectiveness of risk management, control and governance processes. The recommendation raised by PWC detailed several areas of good practice that they felt it would be beneficial for the College to include in their developing strategy and policies. The College is already taking steps implement the recommendations by PWC.

During the year PWC has undertaken follow up work to validate the action taken by management against previously agreed actions. They concluded that of these, one had been fully implemented and five were in progress with revised implementation dates assigned.

The report included the results of the internal audit work conducted as well as a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning. The Audit Committee had agreed the 2011/2012 plan and to an input of 44 days in total. Fundamental changes were made to the plan, following its approval as a result of an impending Ofsted inspection. There were no changes to the total audit days delivered as a result of the changes to the plan.

The College performed a stock take exercise to compile a list of all recommendations raised by Internal Audit, External Audit, Provider Financial Assurance (PFA) reviews and ESF project reviews raised in 2011/2012. In total 25 recommendations were identified and of these recommendations 12 were due for implementation at the time of the PWC work.

There was one recommendation that was classified as high risk where the deadline for implementation had been extended. Management have taken reasonable action to implement a number of recommendations raised in the current year. During 2012/2013 PWC will follow up on the outstanding recommendations identified, as well as the findings raised in their 2011/2012 reports which have not yet become due.

A member enquired whether the recommendation in relation to the high risk item would be implemented by the end of October 2012. The Director of Finance replied that this policy had been sorted out and had gone through the Leadership Team. A member questioned whether the policy would be brought to a meeting of the Board of Governors and the Director of Finance replied that it would not as it would be signed off by the Senior Management Team.

RESOLVED to approve the contents of the report

A/459 Strategic and Operational Internal Audit Plan to 31 July 2016

Karen Finlayson of PWC introduced a draft Strategic Operational Internal Audit Plan which covered the period to 31 July 2016. She explained that the Plan had changed to reflect the Quality and Self Assessment Review. There had been a slight increase in days in 2012/2013 and 2013/2014. The Chair enquired whether the days were sufficient and Karen Finlayson replied that the days were low (20%-30% less than they should be) in comparison to the size of Gateshead College. The Chair suggested scheduling an agenda item on the subject at the Joint Meeting of Audit and Finance and General Purposes Committee on Wednesday 5 December 2012. He indicated that if the Committee concluded that there is a gap in the days, the Director of Finance will have to increase the budget for Internal Audit. The Chair enquired whether Gateshead College is putting itself at risk by trying to work to a fixed budget. Another member commented that it was not just the amount of days undertaken but the quality of the days and the depth to internal audit.

Karen Finlayson suggested the addition of Assurance Mapping in the review and to look at other options for Governance. The review in November 2012 would look at 'Commercial activities and subsidiaries' and 'Quality'. The Director of Finance advised that Ofsted had been critical of the Self Assessment Process and this was being taken forward to Academic Standards Committee to see if it was 'fit for purpose'. A member suggested that Academic Governance could be looked at and enquired whether commercial activities would include work overseas. The Director of Finance explained that this was just research at the moment; over the next two months that work will happen and may be in Malaysia and Singapore. Karen Finlayson advised focusing on current commercial activities and the Chair enquired whether this would be on any company in particular. The Director of Finance indicated that the College had a diverse range of companies including Charge Your Car (North) Ltd and Tyneside Training Services and advised on looking at the College's activities in the low carbon arena to see if they are making a return today and in the future, to establish whether green technology was going to generate a return.

The Chair declared an interest as he is Director of a Charge Your Car (North) Ltd

RESOLVED

- (i) Price WaterhouseCoopers would revise some of their reviews**
- (ii) to sign off the revised Strategic and Operational Internal Audit Plan**

A/460 Financial Statement Audit Year ending 31 July 2012

Peter Gray of Baker Tilly gave an oral report on the Financial Statement Audit Year ending 31 July 2012. He explained that detailed planning work had been undertaken in liaison with PWC and they were half way through the Audit and had not identified any matters to bring to the Audit Committee. They are progressing as expected and will report back to the Joint Meeting of Audit and Finance and General Purposes Committee on Wednesday 5 December 2012.

The Chair enquired whether there were any sectors which had come out in the eleventh hour. Claire Leece of Baker Tilly replied that updated SFA Guidance on Income Recognition would need to be considered.

The Chair commented that the Committee would look forward to receiving the report in December 2012.

RESOLVED to note the contents of the report

A/461 Follow up of Audit Recommendations

The Director of Finance introduced the combined audit recommendations from the last 12 months and explained that he had not added areas previous to that. It was noted that they were broken down into main audit with an update on progress on each one and that this is connected with the information PWC are doing on the Annual Report.

The Chair asked if members were happy to approve the sign off and indicated that they would receive an updated version, which would be a summary page only, at each Committee meeting.

RESOLVED to approve the contents of the report

A/462 Risk Management Register

The Director of Finance introduced a report to which was appended the updated Risk Management Register. It was noted that a colour coding system has been introduced; red, amber and green for both overall gross score and the net risk score. He advised that a 'risk appetite' column had been added to the register following its suggestion at the June meeting of the Committee but it was not completed yet. This column would allow members to assess their risk appetite either High, Medium or Low which will help to determine which risks are acceptable and which should receive the most attention.

A member commented that it was very useful to have a 'risk appetite' column and the Chair enquired about how the column would be populated. He suggested going through the red risks at the next Audit Committee meeting and the Director of Finance advised looking at the background information on each risk to see if it was acceptable or not. Karen Finlayson indicated that PWC had used three different models on risk appetite for other organisations so would find this information and share it with members.

ACTION: Clerk and Chair to ensure that this item is earlier in the agenda for the next meeting.

RESOLVED to note the contents of the report

A/463 Financial Management & Controls Evaluation

The Director of Finance introduced a report which advised that the SFA had announced that Colleges no longer needed to complete the FMCE return and it was likely to no longer form part of a future Inspection unless concerns have been raised about Governance or Financial Management at a college. It was noted that in the summer the College undertook a comprehensive review of the FMCE Framework for the Ofsted Inspection and received very good feedback. The FMCE Framework does provide a good Governance and Financial Management Framework and, therefore, the Committee was asked to consider whether the College should continue on an annual basis to update the Framework document.

A member commented that the Framework provided a structured and systemic approach; it was a basis for good housekeeping and should be kept in case it was needed again in the future. The Director of Finance advised that the Framework provided a checklist of all the things that needed to be done each year and Karen Finlayson indicated that most colleges were going to keep the system.

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The Chair concluded that the Audit Committee felt that the FMCE Framework added value and wanted it to continue.

RESOLVED that the College should continue to update the FMCE Framework and report on an annual basis

A/464 Any Other Business

There were no items for discussion.

A/465 Date of the Next Meeting

The next meeting is a joint meeting of Audit Committee and Finance and General Purposes Committee on 5 December 2012. The next meeting of Audit Committee is on 6 March 2013.