

AUDIT COMMITTEE

WEDNESDAY 10 OCTOBER 2012



Report: Minutes of the meeting held on Wednesday 13 June 2012

GATESHEAD COLLEGE

Author: Clerk to the Corporation

Action: Approve

Status: Open

Present: Chris Macklin (Chair)
Allan Steele
Susan Bickerton
Anthony Garnett

In attendance: Paul Woolston (PWC)
Katie Reeves (PWC)
Peter Gray (Baker Tilly)
John Holt
Richard Thorold
Jackie Doxford

A/442 Welcome/Apologies

Chris Macklin welcomed everyone to the meeting. Apologies for absence were received from Alex Rutherford, Claire Leece (Baker Tilly) and Karen Finlayson (PWC), whose position as PWC Engagement Leader was represented by Paul Woolston, Senior Partner, PWC.

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/443 Minutes of the meeting held on 14 March 2012

The minutes of the meeting held on 14 March 2012 were accepted as a correct record.

A/444 Matters Arising

A/424 Five year Strategic and Operational Internal Audit Plan to 31 July 2016 – It was noted that action required had been superseded by the recent FMCE/PFA review which was reported later on the agenda.

A/445 Internal Audit Progress Report

Katie Reeves of PWC introduced a report indicating progress against the Internal Audit Plan for 2011/2012. To date five reviews: Key Financial Controls; Strategic Risk Management; Corporate Governance; Disaster recovery arrangements and IT security for mobile devices; and Partnerships have been completed. Two reports: Partnerships and Disaster recovery arrangements and IT security for mobile devices were included on the agenda for consideration at the meeting. Members noted that the review for Quality cycle should have taken place during May 2012 but this had been cancelled by the College management because it considered that the review was not appropriate

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following an Ofsted inspection in May 2012. It was noted that the variation to the Plan has been discussed with the Director of Finance and the Chair of Audit Committee and the review of Capital Asset Management originally scheduled for 2012/2013 will be brought forward to use the days allocated to the Quality cycle review. It is intended that the review will be undertaken in June/July 2012.

RESOLVED to note the content of the report

A/446 Internal Audit Reports

2012/04 Partnerships

Katie Reeves of PWC introduced a report of a review which focused on the College's overarching framework for monitoring and managing partnership relationships, and also how these processes and procedures translate into partnership management activity in relation to a sample of two partnership contracts.

One of the College's six key values is 'Partnerships' and partnership working is a key strategic area for the College. Set in this context the effective management of partnership arrangements is essential to ensure that the College is delivering its key values, as well as managing any reputational and financial risks associated with the engagement of third parties. The total annual value of the College's partnership provision is approximately £16 million.

The sample contracts were selected for the following reasons: Group Horizon is a new contract; and Development Training North East, the students involved are not in education, employment or training (NEET) and it is therefore important to the College that success and progression is monitored. The partnership arrangements reviewed have maximum annual values of £980k and £255k per annum respectively. Group Horizon provides training courses which specialise in renewable energy, construction and administration. The learning delivery is a combination of practical and theory based teaching, which aims to ensure that students have the skills and experience that local employers' desire. Development Training North East (DTNE) works with disengaged learners who have been NEETs for long periods of time. They offer a number of programmes which seek to engage learners in their local community, delivering a service in a different type of environment to that of a college.

The report indicated several areas of good practice both in relation to the College's management of its partnership activities and in relation to the two partnership contracts reviewed.

The overall classification of the report was 'Low risk', there were three control design recommendations: one 'medium', and two 'low'. The 'medium' recommendation related to the risk of insufficient follow up of problems or concerns leading to loss of funding or reputational damage and the need for management to develop a dashboard summary document which can be presented to Executive team meetings. This should show on one page a position statement for all partners against the four performance measures. This would enable the Executive team to have a regular and accurate update on the achievement of one of the College's key strategic aims.

One 'low' recommendation in relation to the risk that KPI may not be actively or regularly monitored and that the College may be contracting with a partner which was not achieving against a key aim was that the KPI and associated target relating to progression should be included within each partner contract to ensure that partners take joint responsibility for the delivery of this KPI. The College should ensure that

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partners have processes in place to capture this information at the achievement stage or to follow up with learners post award. The second 'low' recommendation was in relation to the risk that the College is tied in to a contract with an underperforming partner for the entire academic year, potentially leading to funding losses and reputational damage. The recommendation is that during the next year's contract writing and negotiation process, the four KPIs on which partners are assessed should be included in the contractual documentation. The contracts should also include actions which will be taken against partners which do not perform to expected standards. This will ensure that if partners underperform the College can take swift action to minimise the impact.

RESOLVED to approve the contents of the report

2012/05 ITDR arrangements and IT security for mobile devices

Katie Reeves of PWC introduced a report of a review of the College's procedures and controls relating to IT Disaster Recovery and the use of mobile devices which had been conducted by PWC's specialist IT security team. Members noted that the area is currently under development and the risks identified in the report are not control weaknesses but recommendations for future development.

The overall classification of the report was 'Medium risk' in relation to ITDR arrangements and 'Medium risk' in relation to Mobile Device Security. There were six recommendations in relation to ITDR arrangements, four 'medium' and two 'low' and two recommendations in relation to mobile device security, one 'high' and one 'medium'. Three areas of good practice were observed during the review: a systems assessment to identify business critical systems and recovery times in the event of disaster; drafting of an ITDR proposal which encompasses procedures to recover the systems to the disaster recovery site; and performance of partial testing to gain assurance that critical systems can be recovered.

The 'medium' recommendations for ITDR arrangements are in relation to business impact analysis, risk assessment for disaster recovery planning, testing an ITDR plan and wide area network communications; the 'low' recommendations are that the ITDR plan should be formalised and that there should be a data backup facility at the disaster recovery site.

The 'high' recommendation for mobile device security is in relation to the need for and development of a mobile device strategy and policies for acceptable use and for security controls. The 'medium' recommendation is in relation to the central management of mobile devices.

Members noted that the College had deferred turning off the 'Databarracks' recovery arrangements until it was sure that the new systems would operate satisfactorily in a crisis. There was discussion on the mobile device strategy and it was noted that the use of handheld mobile devices was currently limited to Governors and members of the Leadership Team but there are plans to roll out devices for use by a greater number of staff. There was discussion on the backup points in the system and the differences in requirements between the College and financial organisations. It was suggested that the area of ITDR and the risks associated with mobile device security were such that they warranted an annual review.

RESOLVED to approve the contents of the report

A/447 Draft Internal Audit Plan 2012/2013

Members considered the Draft Internal Audit Plan for 2012/2013 prepared by PWC. It was noted that this was an update on the Internal Audit Strategic Plan 2011/2016 prepared at the start of the contract. The plan for 2012/2013 has been refreshed following the outcome of PWCs work to date for 2011/2012 and through discussion with management for consideration by Audit Committee. The plan has been developed taking into consideration the identification of key risks and challenges facing the College.

The draft plan for 2012/2013 is based on 45 audit days with reviews of Commercial Activities and Subsidiaries, the Gateshead College Foundation, Appointments and Payroll, Strategic Planning, Corporate and Social Responsibility, Corporate Governance, and Risk Management. A member enquired whether the recent Ofsted result had changed priorities and whether there were some basics which should be reviewed. The Principal explained that the new Ofsted framework focuses on teaching and learning and academic standards. Inspections will look at data from the point of view of 'distance travelled' rather than results and how far students have progressed since they joined the College and this suggested the need for more frequent meetings of Academic Standards Committee.

It was suggested that there should be greater creativity in the scoping of mandatory reviews e.g. that the Corporate Governance review might consider values and ethics rather than focus on attendance at meetings. Members noted that the draft internal audit plan was to be reviewed in the context of the Ofsted inspection and the final version would be presented for approval at the October meeting of Audit Committee.

RESOLVED to note the contents of the report

A/448 SFA PFA Review of the Financial Management and Control Evaluation Document

The Director of Finance introduced a report which updated the Committee on the outcome of the SFA Audit undertaken in parallel with the Ofsted Inspection in May 2012. The report explained that the SFA Audit is undertaken and provisional grades given prior to moderation in the light of the Ofsted inspection outcomes. The FMCE grades are reduced where the College gradings from Ofsted are not good or outstanding irrespective of the FMCE Audit. A copy of the draft notes of the feedback given by the PFA Auditors was appended to the report.

The report indicated the gradings prior to the impact of Ofsted. Area 1: Accountability Arrangements overall grade Outstanding, 1.1 Strategic Oversight grade Outstanding, 1.2 Operational Oversight grade Outstanding, 1.3 Sub Contracting Arrangements grade Good. Area 2: Financial Planning Arrangements overall grade Outstanding, 2.1 Long term Financial Planning grade Outstanding, 2.2 Short term Financial Planning grade Outstanding. Area 3: Internal Control Arrangements overall grade Good, 3.1 Risk Management grade Outstanding, 3.2 Internal Control Systems grade Good. Area 4: Financial Monitoring Arrangements overall grade Outstanding. The overall grade for the College's financial management and control arrangements was Outstanding.

On incorporation of the Ofsted outcome the gradings were reduced as follows: Strategic Oversight from Outstanding to Satisfactory, Operational Oversight from Outstanding to Good, Accountability Arrangements overall from Outstanding to Good and Risk Management from Outstanding to Satisfactory. The overall FMCE grade was reduced from Outstanding to Good.

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It was noted that in addition, the commentary was amended by SFA by the inclusion of paragraphs 3, 4, 24, 25, 26, 27 and 50 which were not present in the pre-Ofsted version. The College has written to the SFA to challenge these amendments to the report.

Members indicated that they found it difficult to accept that the influence of Ofsted could change the grades initially agreed by the PFA Auditors so significantly.

RESOLVED to note the contents of the report

Paul Woolston left the meeting

A/449 External Audit Strategy year ending 31 July 2012

Peter Gray of Baker Tilly presented the External Audit Strategy for the year ending 31 July 2012 for consideration and approval by the Committee. He outlined the key business and audit risks affecting the audit strategy which include: Income recognition; FRS17; Regularity Review; Financial Health and Going Concern; Fixed Assets – Capital Developments; and, Group Structure and subsidiaries. The strategy document included a plan of the College Group Structure and an indication of the scope of the work required in connexion with each of the subsidiaries. It was noted that in relation to matters brought forward from the previous year the position with respect to each of the completed capital developments which were in progress as at 31 July 2011 will be followed up. With respect to any audit and accounting issues identified in the prior year, there are no matters brought forward which remain unresolved.

It was noted that the proposed fees in relation to the audit of the consolidated financial statements and the regularity audit of the College, exclusive of necessary disbursements and VAT total £17,800.

A member sought clarification on the impact of the Group Structure on charitable status of the College. It was noted that advice from Eversheds, the College's legal advisers that charitable status is not affected by the group structure. The Principal advised the Committee that the Board has not yet formally agreed to the adoption of a Gateshead College Group structure and the structure outlined in the plan is in effect the way in which things currently operate on the ground. Peter Gray suggested that the audit findings report should avoid reference to a group structure if this has not been formally approved by SFA. The Director of Finance indicated that the College has approval from SFA for TTS Ltd and for the Gateshead College Foundation.

RESOLVED to approve the Financial Statements Audit Strategy for the financial year ending 31 July 2012

A/450 Risk Management Plan

The Director of Finance introduced a report to which was appended the updated Risk Management Plan. It was noted that a colour coding system has been introduced: red, amber and green for both the overall gross risk score and the net risk score. Most risks either move from red to amber or red to green. The thresholds are as follows: Red – Gross Risk >12 Net Risk >12; Amber – Gross Risk 6-12 Net Risk 1-2; Green – Gross Risk <6 Net Risk =<1. In addition, changes to the rest of the plan are shown in red, to facilitate its review by the Committee. It was noted that three further risks relating to Diversification of Income, Relationship with Subsidiary Companies and Regional Growth Fund have been added.

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A member welcomed the traffic light system but suggested that there was need to include an additional column to indicate risk appetite and what is an acceptable level of risk. The Chair suggested that in future the Risk Management Plan should be placed higher on the agenda and that the Committee should target a specific area at each meeting. Another member asked about the inclusion of reputational risks and the Director of Finance indicated that some risk registers do include a 'reputational risk' column.

RESOLVED to note the contents of the report

A/451 Follow up of Audit Recommendations

The Director of Finance gave an oral report in which he explained that work was in hand with PWC to develop a log of audit recommendations.

RESOLVED to note the contents of the report

A/452 Other Business

The Chair advised members that Susan Bickerton was resigning from the Board at the end of the term. He thanked Susan for her work on Audit Committee and members expressed their good wishes for her future.

A/453 Date of the Next Meeting

The dates of meetings of Audit Committee in 2012/2013 are as follows:

Wednesday 10 October 2012

Wednesday 5 December 2012 (joint meeting with Finance and General Purposes Committee)

Wednesday 6 March 2013

Wednesday 12 June 2013