



## CORPORATION AUDIT COMMITTEE

### MINUTES OF THE MEETING OF THE CORPORATION AUDIT COMMITTEE HELD ON MONDAY 13 JUNE 2011

**PRESENT :** Mrs A Thomson                      Chair  
                  Mr M Barden  
                  Mr M Garrity  
                  Mr J Green  
                  Mr N O'Brien

**IN ATTENDANCE :**  
                  Mrs P Connell                              Clerk to the Corporation  
                  Ms W Wright                                Principal - items 14/11 to 25/11  
                  Mr D McIntyre                              PKF (UK) LLP  
                  Mr C Moss                                    RSM Tenon

### ACTION

#### 13/11 APOLOGIES FOR ABSENCE

There were none. The Committee held a brief discussion in separate session, following which the Principal was invited to join the meeting.

#### 14/11 MINUTES

The minutes of the meeting held on 4 March 2011 were received and confirmed as a correct record.

#### 15/11 MATTERS ARISING

**4/11 Outcome of HEFCE Appeal.** It was noted that the action under this minute would be effected under agenda item five.

**5/11 Schedule of Outstanding Recommendations.** The internal audit partner advised that the action recorded would be addressed in a different way from that originally envisaged. No separate allocation for the review of the HEIFES arrangements had been made in the Internal Audit Plan for 2011/12, but the matter would be addressed as part of the Follow-Up Audit during the forthcoming year. Proposals for the following year also included provision of a further five days for the auditors to revisit HE issues.

#### 16/11 RESTRUCTURING OF THE SENIOR MANAGEMENT TEAM

**Members received an oral report from the Principal concerning the recent restructuring of the Senior Management Team.** The Principal advised that the College faced substantial funding cuts over the next three years, as did other colleges across the sector. In view of this, it had become necessary to make significant operational savings. Every effort had been made to protect teaching and learning to protect the College's outstanding quality of provision in this area. High priority had been given to retaining teachers since the

Corporation's strategy was to grow student numbers, especially the number of 16-18 year olds, who were funded on a lagged model, which meant that growth was not funded in the first year. It had, therefore, been decided to make the posts of Director of Customer Services and HR and Director of Finance and Estates redundant. Some restructuring of the middle management team was also being undertaken although this process was not expected to be completed until the end of the academic year. Overall, significant savings were expected to be secured although, initially, the College would incur severance costs. **It was agreed that** a revised organisational chart delineating the responsibilities of various individuals would be forwarded to Members of the Committee and the College's auditors, upon completion of the current restructuring process.

WW

#### 17/11 HEIFES UP-DATE

**The Committee received an oral report from the Principal concerning the progress which had been made since the last meeting to agree the Cheshire HE Consortium's HEIFES return for 2010/11.** Members noted that a full reconciliation had now been completed to the satisfaction of the Consortium and HEFCE. There would be no claw back of funding and a letter had been received from HEFCE setting out the full details of the reconciliation. The Principal advised that the matter was now closed.

#### 18/11 SCHEDULE OF OUTSTANDING RECOMMENDATIONS

**The Committee received and reviewed the above document, which was contained within appendix A. The following actions were agreed:**

##### **Learner Records (tabled 7 June 2010 Audit Committee)**

R1. This item should stand, with a revised completion date of October 2011. It was noted that the action referred to the application process only and not to enrolments. An up-date on the development and promotion of the strategy would be given to the Committee in the autumn term.

##### **Non-Core Income Strategy (tabled 7 June 2010 Audit Committee)**

R1. This item should be deleted.

##### **Audit of HEIFES08 by HEFCE (tabled 4 October 2010 Audit Committee)**

R1. This item should be deleted.

#### 19/11 RISK MANAGEMENT

**The Committee received a written progress report together with an updated copy of the Risk Management Register (Key Risks). The documents were contained within appendix B.**

Members noted that a comprehensive review of the risk register had recently been conducted to ensure compliance with the following objectives:

- i that all risks were clearly defined
- ii that the risk assessment remained appropriate
- iii that the control measures remained relevant and effective
- iv that all known risks featured
- v that obsolete entries were identified and deleted.

The result had been a substantial reduction in the size of the register, which now included a total of 55 remaining items, following the meeting of the Risk

Management Group on 9 May 2011. A separate area of the register had also been established to cover any risks associated with the Academy. The Principal spoke on a number of new risks which had been identified and had now been included in the register. She also gave details of the actions which had been taken in support of the staff engagement strategy and **Members received a copy of the article on risk management which had featured in the Staff Bulletin in April 2011.**

**In conclusion, Members thanked the Principal for her report, welcomed the provision in the Internal Audit Plan 2011/12 for an external review of the risk management process and noted the intention to review the membership of the Risk Management Group together with the register, following the completion of the current restructuring exercise. It was agreed that the risk description under 1.1 (166) should be amended to read 'Corporation strategy' rather than 'College strategy'.**

WW

## 20/11 INTERNAL AUDIT REPORTS

**The Committee received and considered the internal audit reports from PKF (UK) LLP, which were contained within appendices Ci to Civ respectively.** The audit reports were as follows:

- i **Responding to Reductions in Funding (June 2011).** The assurance level given at the conclusion of this audit was 'sound' ie the highest category in the framework adopted by the internal auditors. The auditors had considered that there were appropriate mechanisms in place at a senior level within the College to ensure that funding changes were identified, analysed and understood by the Senior Management Team and the Corporation. An appropriate strategy was in place for responding to changes in funding. Consideration of the continued financial viability of the College was appropriately embedded into the strategic planning process and changes in the funding regime had been appropriately communicated to relevant stakeholders.
- ii **Learner Records (June 2011).** The assurance level given in this report was 'adequate' ie the next to highest level within PKF's framework. The auditors had assessed the adequacy and effectiveness of the internal controls over Learner Records at the College. They had noted the new MIS team structure to be implemented in June 2011. The new Deputy MIS Manager had been appointed, but had not taken up post, prior to the finalisation of the audit. Two recommendations had been made, of a medium priority, and both had been accepted by College management. Overall, it was considered that, once the recommendations had been implemented, the College would be in a position to move forward on a strong basis in this area.
- iii **Review of Partnerships (June 2011).** The assurance level given in this report was 'adequate'. The auditors had concluded that there were appropriate formal agreements in place defining the relationship between the College, MMU and the Cheshire Colleges' HE Consortium. All agreements had been regularly reviewed and were up to date. At the time of the audit, a further updated version of the CCHec agreement had been scheduled for presentation to the Consortium Executive Board for approval. Three recommendations, of a low priority, had been made and one had already been implemented. **It was agreed, therefore,** that recommendation one in the action plan would not need to be added to the Schedule of Outstanding Recommendations. The second recommendation would need to be reviewed in compliance with the business cycle of the

Consortium. Since the CCHEC Agreement had now just been reviewed by the Executive Board this action would only be completed in July 2012. However, it was felt that, once the recommendation was added to the Schedule, a further up-date in the 'Management Response / Responsibility' box should be provided to reflect the work which had already been completed in this area. With regard to recommendation three, it was agreed that this should only be added to the Schedule if the fees had not already been published on the College's website.

- iv Internal Audit – Follow-Up Arrangements (May 2011).** The assurance level given at the conclusion of this audit was 'sound'. The auditors had considered that appropriate controls were operating, as intended, in order to ensure that audit and other assurance providers' recommendations were implemented in an appropriate and timely manner.

## **21/11 FINANCIAL STATEMENTS AND FINANCIAL MANAGEMENT AND CONTROL EVALUATION QUESTIONNAIRE**

**The Committee received the letter from the Skills Funding Agency, which was attached as appendix D, and noted that confirmation of the College's Self-Assessment would, in future, only be received following the validation work undertaken by the Provider Assurance Team, in parallel with Ofsted, during Ofsted inspections. It was noted that, in previous years, confirmation had been received that the LSC concurred with the College's Self-Assessment grades.**

## **22/11 VFM STRATEGIES**

**Members received a written report, which was contained within appendix E, concerning the implementation of strategies agreed for the current year.**

The Committee supported efforts by the senior management team to secure value for money in all aspects of the College's work and noted the actions taken in the following specific areas during the current academic year:

- i capital investment strategy. Progress had been made in enhancing the quality of business case submissions for investment and, also, in their appraisal.
- ii IT strategy. The new E-Learning and Technology Manager was driving forward a major investment to virtualise the IT infrastructure. This was being undertaken on a competitive tendering basis and was expected to deliver substantial operating cost savings.
- iii tender exercises. Energy costs were being procured on a competitive basis to ensure best value and better deals had been secured for the College with regard to energy consultants' contracts.
- iv future tenders. Final decisions had not yet been made as to whether to extend the cleaning and catering contracts. Analyses were currently being undertaken to achieve the best value for money for the College and consideration was also being given to the possibility of adopting shared service contracts with the Academy at a future point in time.
- v Consortium – the College had actively participated in the Consortium Energy Efficiency Group throughout the year.
- vi staffing – any requests for new appointments or staff replacements were carefully considered by the senior management team
- vii internal audit – the internal auditors had exceeded the KPI which required a minimum level of added value to be generated by their work each year

- viii Interserve claim negotiations – a successful outcome had been achieved, generating significant savings
- ix Part I claims – again, significant savings had been generated with the help of an external consultant.

In conclusion, the Committee wished to record its gratitude to the Director of Finance and Estates, who had now left the College, for the work he had undertaken in this area. It was noted that responsibility for this area would now be assumed by the Finance and Estates Manager.

**23/11 AUDIT NEEDS ASSESSMENT – THREE YEAR STRATEGIC AUDIT PROGRAMME 2011/14 AND INTERNAL AUDIT PLAN 2011/12**

**The Committee received and considered the Audit Needs Assessment 2011/14, which included the Annual Internal Audit Plan for 2011/12 from PKF (UK) LLP.** The document was contained within appendix Fi.

The internal audit partner spoke on the proposals which had already been discussed with College management. He also drew the attention of the Committee to those areas which had not been included in the Three Year Plan, advising that attention had been focused on those areas of most risk to the College. Members noted the content of the Plan for 2011/12, which was, naturally, presented in more detail. Provision had been made for the auditors to review risk management, the quality framework, management information, payroll and expenses, learner records and for them to conduct their follow-up review.

Discussion ensued concerning the absence of any contingency provision in the Plan. It was felt that such an inclusion would not be necessary since the Audit Committee would discuss any requirement amendments to the Internal Audit Plan as they were presented to it during the year. It was noteworthy that the Higher Education audit had been scheduled for 2012/13 and it was felt that the situation across the sector might change rapidly once the Government's White paper was published. **It was agreed that** a careful 'watching brief' would need to be maintained in relation to HE matters in such circumstances to establish whether the scheduling of this aspect of the auditors' work would need to be revised.

The internal audit partner spoke on the consultancy work which his firm had recently undertaken at the College with regard to timetabling. It was noted that the senior management team had not yet discussed the report. Members expressed their desire to know whether this work had had any impact on the formulation of the Three Year Plan. **It was agreed that** reference should be made to the outcome of the consultancy work in the Annual Report presented to the Committee in the autumn term.

**DMcI**

In conclusion, **it was agreed that the document contained within appendix Fi should be formally recommended to the Corporation for approval on 12 July 2011**, with the proviso that some revision should be made in relation to provision for the review of timetabling. The Chair was authorised to approve the final version for submission to the Corporation in July.

**DMcI**

**AT**

**The Committee received a written report, which was contained within appendix Fii, concerning the performance review of the internal audit**

**service for 2010/11.** It was felt that the format of the report was very useful since it provided views from both College management and the internal auditors of the value added by the latter's work. **Members supported the proposal that the internal auditors should be re-engaged for 2011/12** on the same terms and conditions as in 2010/11, **subject to the agreement of the proposed fees. The latter were contained within appendix Fiii, together with a written report from the previous Director of Finance and Estates.** It was noted that the contract with PKF provided for an annual price adjustment in line with the retail price index for all goods and services. Mindful of the challenging funding climate which the College faced, PKF had moderated their proposal to a 2% increase, significantly below the RPI rate of 5.3% for the previous year. **In conclusion, Members thanked the internal auditors for their service during the current academic year and approved the fee proposals contained within appendix Fiii.**

**24/11 DRAFT AUDIT PLANNING MEMORANDUM FOR THE YEAR ENDED 31 JULY 2011 / FEE PROPOSALS FROM RSM TENON FOR THE FORTHCOMING YEAR**

**The Committee received the Draft Audit Planning Memorandum for the Year Ended 31 July 2011 from RSM Tenon.** The document was contained within appendix Gi.

The external audit partner spoke on the planning and proposed audit approach for the audit of the College's accounts for the current financial year. He advised that the audit requirements remained unchanged. However, a new sector engagement letter was expected to be issued before the year end. It was anticipated that this would be available for presentation to the November meeting of the Committee. Members noted that the results of the regularity audit would also be included within the financial statements management letter. The external audit partner confirmed that his firm would also provide the required audit opinions for the return for the Teachers' Pension Agency. Discussion ensued concerning the proposal for the external auditors to use their assessment of internal audit, as in previous years, to avoid duplication and reduce the external auditors' other audit work. A meeting would be held between RSM Tenon and PKF (UK) LLP to minimise duplication and, in particular, with respect to testing systems and controls. The external audit partner gave details of how this approach was likely to work in practice. It was felt that it would be helpful to Members of the Audit Committee, in determining the Three Year Internal Audit Plan to have some additional information concerning the areas of the internal auditors' work upon which the external auditors had relied. **It was agreed** that this should be provided in the report presented to the November meeting of the Committee. Members supported the proposed materiality level contained within the draft memorandum and, also, that any item in excess of £4k (approximately 3% of materiality) would be reported. Reliance would be placed on the FRS17 valuation from the scheme actuary with regard to the Local Government Pension Fund.

**CM**

The external audit partner reported that no major business risks had been identified which would impact upon the audit. The recent changes in the senior management team had been noted and the auditors would assess any potential impact on the audit. With regard to the risk of fraud, it was noted that managers were unaware of any instances of fraud occurring during the year. The risk had been assessed as low. The external audit partner advised that a prior year adjustment might be required because final guidance concerning the

correct accounting treatment of the change from RPI to CPI in relation to FRS17 in the 2009/10 accounts had again been amended since the Financial Statements for that period had been signed.

Members noted the significant accounting and reporting developments described in the memorandum. They supported the proposed schedule for the administration of the audit. **In conclusion, they thanked the external audit partner for his report and for the work carried out by RSM Tenon over the last twelve months and looked forward to receiving further progress reports in the autumn term.**

**The Committee received a written report, which was contained in appendix Gii concerning the fee proposals from RSM Tenon for the forthcoming year. It was felt that the external auditors had provided a good service and Members formally recommended the proposed increase in their fees by 3% from £12,480 to £12,850 to the Corporation for approval on 12 July 2011.** In making this recommendation Members were mindful that no increase to the fee for the TPA return was being proposed and, also, that the external auditors had received no increase in their fees for three years.

#### **25/11 DATE OF NEXT MEETING**

This would be determined when the calendar of meetings for the forthcoming year was approved by the Corporation in July.

Pamela J Connell  
Clerk to the Corporation  
17 June 2011