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**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT 5.15PM ON 1ST JULY 2008**

- Members:** Roger Abraham, Governor and Chairman
Don Gratton, Governor
Tony Leach, Governor
Ron Melville, Governor
Gareth Dufton, Independent Member
- Other Representatives:** Mark Reid, MacIntyre Hudson LLP
Milton Nicholas, Baker Tilly LLP
- Present:** Sue Adams, Clerk to Governors
Stephen Dowbiggin, Chief Executive
Nicholas Evans, Director of Estates and Buildings
Madeline Hall, Head of College
Janet Hughes-Hallett, Finance Manager
Simon O’Hear, Personnel Manager

1. APOLOGIES FOR ABSENCE

Apologies were received from Tony Leach, Ron Milville and Gareth Dufton.

2. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 9TH APRIL 2008

RECEIVED the minutes of the Audit Committee meeting held on 9th April 2008

The minutes were approved and signed by the Chairman as a true record of the meeting.

3. MATTERS ARISING FROM THE MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 9TH APRIL 2008

RECEIVED paper 3, matters arising from the Audit Committee meeting of the 21st November 2007 for information

NOTED that completion of a value for money review of the catering service in 2007/08 had not been included in MacIntyre Hudson LLP’s internal audit plan for 2008/09. This would be dealt with under item 9, Internal Audit Strategy and Annual Plan 2008/09.

The Chairman took papers 5, 6 and 7 first whilst the Head of College was present. The Head of College then left the meeting in order to undertake other urgent college business. The minutes are recorded in the order detailed on the agenda.

4. REPORT OF THE FINANCE MANAGER

RECEIVED paper 4, report of the Finance Manager for decision.

4.1 Financial Regulations

NOTED that the financial regulations have been updated to reflect the amendments approved by the Governing Body in April 2008.

4.2 Re-appointment of auditors for ILR assurance work

NOTED that:

- i. the LSC had notified the college that it had been selected to be part of a pilot scheme for ILR assurance which ensures that funding is claimed accurately and the underlying data is credible. The pilot work will focus on controls and process around the ILR and funding claims;
- ii. the cost of participating in the pilot scheme will be met by the LSC;
- iii. at the last meeting of the audit committee members agreed to reappoint Baker Tilly, Chelmsford, to undertake the ILR assurance audit work for 2007/08;
- iv. the ILR audit that Baker Tilly, Chelmsford would have undertaken would have mirrored the work being undertaken by the LSC as part of the pilot scheme.

RESOLVED that the appointment of Baker Tilly, Chelmsford to perform the ILR assurance work for 2007/08 is not progressed because the college has been selected by the LSC to take part in a pilot for ILR assurance

4.3 Merger of MacIntyre Hudson LLP

NOTED that in April 2008 MacIntyre Hudson LLP merged with the London office of MGI Midgley Snelling. The firm remains as MacIntyre Hudson LLP

4.4 Fraudulent use of college credit card

NOTED that:

- i. one of the college's credit card statements dated 5th June included three transactions (totalling £1,187) which had not been authorised by the credit card holder;
- ii. the bank was notified immediately and the transaction was reversed following receipt of a declaration by the credit card holder;
- iii. there had been no financial loss to the college;

- iv. the Chairman, who was notified immediately, congratulated the college on its swift response to the fraudulent activity which the police were now investigating.

5. VISIT ONE 2007/08 INTERNAL AUDIT REPORT

RECEIVED paper 5, report of MacIntyre Hudson LLP for decision

NOTED:

- i. visit one 2007/08 of the internal audit service which had covered all areas outlined in the internal audit plan for 2007/08 had been carried out during June 2008;
- ii. the departmental review of catering, which was originally scheduled for 2006/07 and carried forward to 2007/08, had yet to be undertaken. As reported above, this would be considered under item 9;
- iii. the internal audit report outlined MacIntyre Hudson LLP's overall assessment of the college's systems, their detailed findings and recommendations and an action plan agreed by management as well as a follow-up on previous recommendations;
- iv. from the 64 control objectives reviewed 89% were considered to be fully met and 11% partially met. The report identified nine recommendations of which four were considered to be of medium priority and five of low priority. College management had not agreed with all the recommendations;
- v. the Internal Auditor gave a brief overview of the areas audited prior to members considering the report in detail:

➤ **Corporate Governance**

Governance arrangements in place were appropriate to meet the needs of the college and statute. Members attention was drawn to the fact that there was a student governor vacancy. The Internal Audit Service was satisfied that measures were in place to fill the vacancy for the 2008/09 academic year.

There were no recommendations for action.

➤ **Risk Management**

Risk management arrangements in place were adequate and ensured compliance with funding body guidance.

There were no recommendations for action.

➤ **Space Management**

The college's space management procedures monitored space utilisation and considered the needs of users.

There were no recommendations for action.

- **Insurance**
The level of insurance was sufficient and met the needs of the college.

There were no recommendations for action
- **Franchising / Partnerships**
The college had no franchising provisions. Partnership relationships entered into by the college are viable, properly constituted and adequately controlled for quality and performance targets.

There were no recommendations for action.
- **Curriculum issues**
Courses of study are operated in accordance with college policy, the requirements of the LSC and in the best interests of students and the college.

There were no recommendations for action.
- **Departmental review of centres**
The college ensures coherence in the delivery of its teaching and other services across all centres by agreeing goals and procedures which are congruent throughout the college and monitoring their use.

One medium priority recommendation had been made by the Internal Audit Service which they felt would make the college systems more robust.
- **Pastoral Care**
One low priority recommendation had been identified by the internal audit service which they felt would make the college systems more robust
- **Strategic Planning**
One low priority recommendation had been identified by the internal audit service suggesting that the college needed to include the mission statement on the front of the Strategic Plan
- **Central Nominal Ledger**
Two medium priority recommendations had been made by the internal audit service which they felt would make college systems more robust.
- **Bank and Cash**
Three low priority and one medium priority recommendations were made in terms of good practice and to make college systems more robust.

vi. members considered the action plan summary of recommendations and management responses in detail in conjunction with the findings of the internal audit service.

Departmental Review – Centres (Reference C7 of the report)

- vii. the recommendation that consideration should be given to varying locations of curriculum heads' meetings between centres to encourage inclusion and participation across centres was discussed. It was clarified that the auditor was not suggesting that the managers' meetings should be moved across centres and that his recommendation related to meetings between Curriculum Heads / Centre Managers / Coordinators. The Head of College reported that following conversations with staff at centres, staff felt comfortable with communication at the centres. Proposals to base a meeting a year of the Curriculum Heads / Centre Managers / Coordinators in centres other than Enfield are already being discussed and had been actioned at Gunnersbury Park;
- viii. members felt officers needed to give careful consideration to the commitment of individuals in actioning the recommendation. The Head of College advised that meetings based in smaller centres will be scheduled to align with other activity already served by Heads of School, for example advice sessions;
- ix. officers also felt it would be easier to address this recommendation once capital developments come on line which would provide more space and the potential for high quality conferencing facilities;
- x. the Chairman reported that the issue of communication with centres had been discussed at the Strategic Planning Away Day. The Chairman Designate of the Governing Body would be having some of his meetings with the Chief Executive at the centres. It was also anticipated that the April 2009 Governing Body meeting would be held at Crystal Palace

Strategic Planning (Reference E1 of the report)

- xi. officers felt that the college's Development Plan Summary 2007/08 clearly imbues the college's mission statement which is embedded across college and is the "driver" behind the college's thinking. It was acknowledged that the mission statement is not specifically highlighted in the document;

AGREED that the Internal Audit Service would amend the recommendation to read:

“The Development Plan Summary 2007/08 to 2009/10 should highlight the college's mission statement. This would help to establish the strategic objectives set are compatible with the mission statement”

Central Nominal Ledger (Reference G2 of the report)

- xii. The auditor's response was clarified and it was noted that this referred to the main college network access passwords (not just finance). There was considerable debate about the feasibility of staff changing passwords to access the college's finance system, student records and management information systems. Passwords into these systems were separate to the main college password and some staff could have three or more passwords to remember and change. Management felt the potential disruption of the proposal outweighed any possible benefits and that the risk of staff writing down passwords could be greater;

- xiii. the need for good levels of security for the college's finance system, student records and college management information systems was reaffirmed. The Internal Auditor advised that regularly changing passwords was good practice and mitigated risk;
- xiv. the Internal Audit Service advised that the recommendation related changing the college network password at more regular intervals rather than specific network passwords for finance, student records and management information systems;
- xv. the Chief Executive felt the heading "Central Nominal Ledger" was misleading and advised that if the recommendation had made it clear that it referred to college network access (not just finance), the management response would not have been the same;

AGREED that

- 1. the Internal Audit Service amend the recommendation to read:**

"The College should create prompts to change the college network passwords at more regular intervals"
- 2. the management response be amended to accept the recommendation;**
- 3. college network passwords should be changed on an annual basis;**
- 3. to remove the heading "Central Nominal Ledger" for this recommendation only.**

Central Nominal Ledger (Also Reference G2 to the report)

- xvi. members debated the recommendation that in order to ensure that payments (e.g. cheques) received from prospective students are processed on a timely basis the college should comply with the Student Registry Service Standards 2008/09;
- xvii. the Head of College advised that the current system of banking cheques was historical and was introduced as a result of a high level of requests for refunds which placed a heavy administrative burden on staff;
- xviii. members of the Finance Department and Student Registry would review targets for processing cheques and monitoring as part of the review of service standards for Student Registry.

Bank and Cash (Reference H2 to the report)

- xiii. members discussed in some detail the recommendation that cash reconciliation should be completed by two individuals with random spot checks at each source (Reception/ Shop and Finance). The current system had resulted in some discrepancies which officers felt were not material;

- xiv. management agreed the need for a unified money handling policy which can trace money and protect individual reputations against accusations;
- xv. Management felt that, as the amounts were not material, the priority should be reduced from “medium” to “low”. The Internal Auditor advised that he would seek further clarification to confirm discrepancies as not being material and that if this was confirmed:
 - a. consideration would be given to reducing the recommendation to low priority and
 - b. a note to reflect that the amounts involved were small and not material would be included in the report;
- xvi. the Chief Executive advised that the extra cost of arranging for two people to undertake cash reconciliation at all times was prohibitive for the college, particularly at weekends when it would further erode the profitability of opening the gardens to the public and that these costs were disproportionate to the risk or variances experienced;
- xvii. whilst no differences should be acceptable and the college will seek to ensure that systems are improved there was no evidence of fraud and that the college’s view was that the current variations were in line with what could be expected as a result of routine till errors;
- xviii. the importance of ensuring systems are robust enough to protect staff against any suspicion of theft or fraud;
- xix. the differences were between the final cash and the “z” reading from the till;
- xx. the Internal Audit Service also noted the college’s concerns about its bank’s cash counting service in that differences had occurred between what was expected to be banked and what had actually been banked.
- xxi. The Finance Manager advised that differences have been reimbursed by the college’s bankers. The Finance Manager has introduced double checking procedures at the college when money is counted for banking and the number of bags of money is clearly indicated on paying in slips.

AGREED the Internal Audit Service would:

- 1. seek further clarification to confirm that any discrepancies between cash reconciliation with till receipts at the Reception/Shop are not material;**
- 2. subject to such confirmation:**
 - a. consideration would be given to reducing the recommendation suggesting two staff cash up the till at the end of the day to low priority and**
 - b. a note to reflect that the amounts involved were small and not material would be included in the report;**

Follow up to previous recommendations

- xix. management concurred with the recommendation that stock taking should be undertaken on a monthly basis (Customer Services) and would ensure this was being actioned;
- xx. the issue of identifying student debtors and chasing debtors will be addressed by the introduction of new software in the coming year;
- xxi. management acknowledged that daily takings reconciliation forms should be reviewed and signed as evidenced by the respective manager on a regular basis, even if not on the same day. This was a procedural issue and action was in place;
- xxii. the recommendations made in 2006/07 relating to budgetary planning and control were all being addressed in the budgetary cycle for 2008/09 because they needed to be introduced as part of the full cycle of budgetary control;
- xxiii. the Chief Executive Officer reported that some recommendations relating to fee income had been implemented and therefore this had now been completed;
- xxiv. the recommendation that the IT Strategy should be updated accurately to reflect the procedures for making and IT purchase actually related to a timing issue.

Summary of discussion of the overall report

- xxv. members felt the large number of areas where no recommendations had been made was an indication of the confidence of the auditors in the college's control systems;
- xxvi. in response to a question from the Chairman the internal auditor expressed the overall view that over the last two years (whilst he had been auditing the college) there had been improvement in the college's control systems and the college was continuing to move forward. It was recognised that the college is unique and that there was a need for flexibility within the limited resources available.

RESOLVED:

- i. to agree the management recommendations contained in the Visit One 2007/08 Internal Audit Report subject to the agreed amendments noted above being actioned;**
- ii. to accept the visit one 2007/08 internal audit report from MacIntyre Hudson LLP provided all the changes proposed at the meeting are implemented.**

6. LSC REVIEW OF FINANCIAL MANAGEMENT AND GOVERNANCE

RECEIVED paper 6, report of the Chief Executive for decision

NOTED:

- i. the Chief Executive reported the LSC review of financial management was a good desk-top exercise which assessed aspects of the college's financial management and governance arrangements. It thereby provides an opinion for the LSC on whether or not such arrangements are effective. It also provides reassurance for governors that the two areas which it was felt merited attention were being addressed;
- ii. the recommendation that *"on the advice of the principal the governors and college executive continue to be vigilant in monitoring the impact of changes in the funding methodology is addressed in the Risk Management Action Plan and reviewed by the Finance and General Purposes Committee regularly"*;
- iii. the recommendation that *"on the advice of the principal the audit committee request that the lead partner for the Internal Audit Service be rotated will be a stipulation when reappointing the auditors for 2008/09"*.

RECOMMENDED TO THE GOVERNING BODY that they note that the LSC Provider Financial Management team of the London Region had carried out a review of the college's SARQ and supporting documentation and found that the college's financial management and governance frameworks were graded as "2", full assurance.

7. REVIEW OF THE LSC LEARNER HEALTH AND SAFETY AUDIT

RECEIVED paper 7, report of the Director of Estates and Buildings for information

NOTED that:

- i. the college had been subject to a vigorous one day inspection by the area LSC Regional Office of learner health and safety in the college;
- ii. this had been a desktop exercise with the final performance judgement being based on evidence provided in response to a detailed questionnaire
- iii. the college had received a health and safety performance rating of "good" with no areas for development being identified;
- iv. Members congratulated the Safety Officer and all those involved in achieving the rating.

8. 2007/08 FINANCIAL STATEMENT AUDITOR'S AUDIT STRATEGY

RECEIVED paper 8, report of the Finance Manager for Decision

NOTED that:

- i. the Financial Statement Auditors audit strategy had been produced by Baker Tilly and was presented by Milton Nicholas, Baker Tilly;
- ii. Members' attention was drawn to the timetable and communications plan for 2007/08. The Financial Statements Auditors did not anticipate any problems in meeting the timetable;
- iii. as part of the document the Financial Statements Auditor had identified key risks affecting the audit plan which was the auditor's assessment of key areas of audit risk;
- iv. Members attention was drawn to SORP 2007 which will be effective for year ends commencing on or after the 1st August 2007. The auditors will review the college disclosures in accordance with the requirements of the Accounts Direction Handbook, SORP 2007 and the accounting standards;
- v. Members attention was also drawn to capital projects. The college has a number of proposed building projects progressing to AiP stage. Auditors would review the status of any capital projects and consider the college's treatment of its proposed building projects and the balance sheet values relating to freehold properties in the light of FRS's and LSC accounting guidance including the Accounts Direction Handbook;
- vi. Audit fees include two non-audit pieces of work undertaken by the Financial Statements Auditor:
 - Teachers Pension Return Certification
 - Grant Returns
- vii. the report identified financial reporting developments:
 - Proposed new funding agencies
 - Changes in funding methodology
 - Further Education and Training Act 2007 and LSC Intervention Policy
 - Framework for Excellence: Raising Standards and Informing Choice
 - SORP 2007
 - Accounts Direction

Members felt this section of the report could usefully be circulated to Finance and General Purposes Committee.

RESOLVED to circulate pages 15-27 of the report, Financial Reporting Developments, to the Finance and General Purposes Committee.

RECOMMENDED TO THE GOVERNING BODY that:

- 1. Governors agree the Financial Statement Auditors Audit Strategy for 2007/08;**

2. **the audit fee of £25,450 plus VAT comprising of £22,500 for audit work and £2,950 for non audit work is approved for the year ending 31st July 2008.**

9. INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2008/09

RECEIVED paper 9, report of MacIntyre Hudson LLP for decision

NOTED:

- i. the internal audit strategy and annual plan for 2008/09 was the second year of the three year plan already agreed by governors;
- ii. Members requested that a value for money audit of catering be incorporated into 2008/09;
- iii. Consideration was given to how the above could be accommodated the within the number of days allocated (34.5 days)
- iv. the proposal that payroll and personnel management and staff utilisation and HR management (total of 6 hours) be moved to 2009/10 as the college was considering the introduction of a new payroll system and other areas of the HR function were being reviewed;
- v. the proposal that Student Enrolment and Record Procedures and the value for money audit of catering be undertaken in 2008/09 which would leave one contingent day in 2008/09.

RESOLVED:

1. **that the audit of Payroll and Personnel Management and staff utilisation and HR management be moved to 2009/10;**
2. **that Student Enrolment and Record Procedures and the value for money audit of catering be undertaken in 2008/09 leaving one contingent day in 2008/09.**
3. **to ask the Internal Audit Service to amend the internal audit strategy and annual plan 2008/09 and three year plan for 2009/10 – 2011/12 for presentation to the full governing body with headings being included at the top of each page to facilitate ease of reading.**

RECOMMENDED TO THE GOVERNING BODY that:

- i. **the Internal Audit Strategy be approved**
- ii. **the Annual Plan for 2008/09 contained in the Internal Audit Strategy be approved with the amendments detailed above;**
- iii. **the allocation of days detailed in the Internal Audit Strategy and Annual Plan allocated to audit areas for 2008/09;**

- iv. **the three year strategy 2009/10 –2011/12 detailed in appendix 3 to the report to include the amendments detailed above;**
- v. **the Internal Audit Service fee for 2008/09 of £16,931.90 plus VAT be approved**

10. ANNUAL CHECKLIST OF THE AUDIT COMMITTEE

RECEIVED paper 10, report of the Clerk to Governors for decision

NOTED that it could be confirmed that the Audit Committee has met the criteria outlined in the annual checklist on the work of the committee for 2007/08.

RESOLVED to confirm compliance with the Annual Checklist on the work of the Committee for 2007/08.

- 11. DATE OF NEXT MEETING: provisionally Wednesday 19th November 2008 at 5.15pm.**