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**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT 4.30PM ON THE 24TH MARCH 2010**

Members: Roger Abraham, Chairman and Governor
Gareth Dufton, Independent Member
Tony Leach, Governor
Ron Melville, Governor
Vacancy, Governor

Other Representatives: Sarah Mason, Baker Tilly
Graham Bradley, Scrutton Bland
Teresa Sharman, Scrutton Bland

Present: Sue Adams, Acting Clerk to Governors
Steven Dowbiggin OBE, Chief Executive Officer
Nicholas Evans, Director of Estates and Buildings
Damien Fallon, Director of Finance
Madeline Hall, Head of College
Simon O’Hear, Personnel Manager

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Ron Melville (Governor). Gareth Dufton was not in attendance.

Members expressed concern at the number of meetings Gareth Dufton had missed and his lack of contact with the college. It was agreed that the Chairman would contact Gareth Dufton by telephone to discuss his absence.

2. MINUTES OF THE MEETING HELD ON THE 2ND DECEMBER 2009

RECEIVED paper 2, minutes of the Audit Committee meeting held on the 2nd December 2009.

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

3. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON THE 2ND DECEMBER 2009

RECEIVED paper 3, matters arising from the minutes of the meeting held on the 30th June 2009, for information.

3.1 Item 3.2 – VAT returns

NOTED:

- i. the Director of Finance would produce a report for the June 2010 meeting detailing his assessment of the complexity of the work undertaken by Davis Myers during 2009/10 and the benefits that will accrue from any tax saved as a result of their advice to the college;
- ii. the Director of Finance was satisfied with the service provided by Davis Myers to date.
- iii. no specialist VAT advice was being sought from Davis Myers at the present time as the Director of Finance felt competent to make the return himself.

3.2 Item 18 – Appointment of the Internal Audit Service for 2009/10 to 2011/12

NOTED that the previous Internal Audit Service (MacIntrye Hudson LLP) forwarded their files to the college who in turn made them available to the new Internal Audit Service (Scrutton Bland)

4. REPORT OF THE DIRECTOR OF FINANCE

RECEIVED paper 4, Report of the Director of Finance for decision

4.1 Internal Audit Service

NOTED that:

- i. the Director of Finance felt the different approach and focus taken by Scrutton Bland is benefiting the college and encouraging an objective review of some areas of activity which goes beyond the service provided by the previous auditors;
- ii. the Director of Finance reported that the audit had gone well and at this stage he felt governors had made an excellent appointment;
- iii. Scrutton Bland reported that they were pleased with the way they had been able to work with the college and the support they had received.

4.2 Teachers' Pension Audit

NOTED:

- i. the annual audit of the Teachers' Pension Fund has been undertaken by Baker Tilly in recent years;
- ii. the purpose of the annual audit of the Teachers' Pension Fund was to ensure the Scheme rules are being followed accurately by the college and the correct levels of contributions are being made;
- iii. completion of the annual audit is required by the end of April 2010;
- iv. the proposed audit fee of £1,000 is based on past costs and an addition to reflect inflation;
- v. the audit fee is exclusive of VAT which is not recoverable.

RECOMMENDED TO THE GOVERNING BODY that

- i. Baker Tilly is re-appointed as auditor of the Teachers' Pension Fund for the 2009/10 financial year;**
- ii. the audit fee for the year 6th April 2009 to 5th April 2010 be agreed at no more than £1000 (exclusive of VAT).**

(NB. Technically the audit fee relates to the tax year and not the academic year as stated in the paper)

5. VISIT ONE 2009/10 – INTERNAL AUDIT REPORTS

RECEIVED paper 5, report of the Director of Finance for decision

Scrutton Bland tabled an Internal Audit Progress Report for Capel Manor College – 2009/10

NOTED

- i. the Director of Finance reported that he had been advised by Ron Melville that he had no observations to make on the report which he wanted to draw to the attention of the Committee;
- ii. the Internal Auditors highlight their opinions by using two separate reporting systems which were detailed in Appendix I (Assurance Levels) and Appendix II (Risk Assessment);
- iii. Appendix III was the final risk and assurance report on Purchasing and Payments , Appendix IV was a draft Waiver Form and Appendix V was the final risk and assurance report on Computer Control Environment;
- iv. Scrutton Bland advised that presentation of their report in this format ensured that Members had the whole picture and were able to see how the auditors had determined the assurance level and risk scoring contained in the report;

- v. Members felt the report was in a style that was “user friendly”. The auditors advised that all internal audit reports would be presented in the same format detailing:
- The audit area objectives
 - Significance
 - The college’s risk register entry
 - Scope and approach of the audit (detailing proposed risks and areas of review)
 - Assurance Level
 - Conclusions (detailing risk, adequacy of controls and operation of controls in practice)
 - Action Plan
 - Added Value points
 - Benchmarking Data
 - Acknowledgements
 - Summary of findings (supporting documentation for the Action Plan)

5.1 Risk and Assurance Report on Purchasing and Payments

NOTED:

- i. the college’s risk register entry;
- ii. that there were six proposed risks and areas of review for Purchasing and Payments;
- iii. the assurance level given for this area of work was “significant”. The definition of “significant” states “minor remedial action is required to bring the management of risk within the risk appetite level”;
- iv. the auditors advised they felt the college was nearer the top end of “significant” but in order to get an overall assurance level of “strong” there would need to be no, or very minor, recommendations;
- v. two “low” priority recommendations were made for this area relating to where three written quotations are required to be obtained and vetting checks on new suppliers and what these checks should comprise;
- vi. purchase orders were raised to cover materials or services;
- vii. a discussion relating to the completion of a waiver form where it had not been possible to obtain three written quotations to explain the reasons for this;
- viii. there are occasions when the college would consider not undertaking a tendering exercise, for example where there was a continuous role/longer term relationship or a unique supplier;
- ix. auditors were of the view that a tender process should be used when initially setting up a contract unless there was a specific reason for not doing this and that the college should undertake some form of periodic benchmarking exercise where there was a longer term relationship;

- x. the Chief Executive Officer supported the need to be transparent and open to scrutiny;
- xi. management accepted that budget holders should obtain at least one quotation from a purchasing consortium supplier when a formal tender is required;
- xii. purchasing consortiums could be used as a means of benchmarking and obtaining such a quotation should not be too onerous;
- xii. management did not accept that vetting checks should be undertaken on all new suppliers as the majority of transactions were at a low level and the college only pays for most items or services when they are received and when the college is satisfied with the standard of product/service;
- xiii. management did accept that vetting checks should be undertaken for purchases where a formal tender is required and this was being included as part of the pre-tender questionnaire;
- xiv. Chairman of Audit asked if the part of the recommendation not accepted by management would re-occur in future reports even though the detail had been noted by members and the auditors. Scrutton Bland replied that when this area is reviewed the balance of their response may alter and that the recommendation would not necessarily reoccur if a balance is agreed with management;
- xv. the college's financial regulations would be amended to reflect the auditors' recommendations and be presented to a future meeting of the Finance and General Purposes Committee;
- xvi. the benchmarking data provided by Scrutton Bland showed the college compared very favourably with other clients in the Sector in relation to the number of high, low and medium recommendations made in this audit. Purchasing and payments has always been a focus for auditors and members were pleased to see this reflected in the benchmarking data.

5.2 Risk and Assurance Report on Computer Control Environment (CCE)

NOTED:

- i. this area of work had not been a key focus or specialist area for the previous Internal Audit Service and therefore there were a number of detailed action points which had been identified;
- ii. the college's two risk register entries relating to this item;
- iii. Scrutton Bland had identified three proposed risks and areas of review for Computer Control Environment;
- iv. the assurance level given for this area of work was "Reasonable". The definition of "reasonable" states "moderate remedial action is required to bring the management of risk within the risk appetite level";

- v. the auditors advised that where the controls required to mitigate risks are identified as “adequate” this meant that, whilst systems were in place on paper, not all of the controls were operating in practice;
- vi. Members fully discussed the six “low” and two “medium” recommendations made for this area;
- vii. the college’s firewall (called Fortinet) was new. The auditors recommended the need to identify with the supplier what intrusion protection systems were available on the firewall. The college also needed to ensure that the relevant intrusion protection systems are enabled including the receipt of an email alert of potential attacks in accordance with the firewall threshold rules for attacks. The college’s IT Development and Resources Manager was implementing this recommendation;
- viii. the IT Development and Resources Manager had already commenced work on ensuring the Sophos Enterprise Console log is cleared once messages have been viewed and appropriate action taken. This was seen as good housekeeping practice by the auditors;
- ix. as part of setting password parameters for the network, the issue of changing staff passwords every term had already been raised at a Managers’ meeting and received a positive response;
- x. Members sought the views of the auditors in relation to tapes being the only form of backup. The auditors felt the college could introduce remote backup, possibly with another college. However, there would be a need to ensure that any organisation providing a remote backup had controls in place which were as good as the college’s controls;
- xi. periodic server restoration testing from backup tapes has been undertaken but only when this has been prompted by the need to restart the system. As the college does not have the time or resources to undertake a complete restore at a single moment in time without disrupting service, all college software and server hardware will be restored over a planned cycle over a year;
- xii. the college’s Disaster Recovery Plan would be updated to include all the necessary information that would be required to rebuild the college’s IT systems;
- xiii. Cyberdan are responsible for the Finance server/data and the Unit-e data back-up and relevant arrangements are in place for Cyberdan to undertake simulation disaster recovery testing detailed in their Disaster Recovery and Support Schedule on the Enfield site;
- xiv. the need for SMT to decide whether the responsible officer for the Cyberdan contract should be the IT Development & Resources Manager or Director of Finance or whether this should be a shared responsibility;

- xv. the auditors advised that when considering environmental hazards in the server room examples of what they reviewed included air conditioning, temperature, fire risk, water pipes, security, the roof;
- xvi. the Head of College advised that action was being taken in line with the auditor's recommendations to improve the server room but acknowledged that the server room was not an ideal location for the current volume of servers. The Chief Executive advised that the server room was initially built as part of the Duchess of Devonshire Building. The college had acted on advice given at the time that the server room would serve the college's present and future needs. The cost to move the server room outweighed the risk at the present time;
- xvii. benchmarking data reflected the new focus and thorough audit of this area of work. Information gathered by the auditors from clients across the FE and HE sectors showed that the average number of recommendations per CCE audit was 5.38. The number of recommendations in the college's CCE audit was 8. The Chief Executive Officer expressed the view that he hoped the benchmarking data would show an improvement next time this area of work is audited;
- xviii. the Chairman asked the auditors how progress against the action plan would be monitored. The Auditors advised they would be undertaking an on-going annual review. The Chairman requested that a brief update be provided to the next meeting of the Audit Committee;

RECOMMENDED TO THE GOVERNING BODY that the management recommendations be agreed and the first internal audit report from Scrutton Bland for the 2009/10 financial year be accepted.

6. ANNUAL APPOINTMENT OF THE INDIVIDUAL LEARNER RECORD (ILR) ASSURANCE AUDITOR FOR 2009/10

RECEIVED paper 6, report of the Director of Finance for decision

NOTED:

- i. Baker Tilly has undertaken the ILR assurance work for the college since the 2004/05 financial year;
- ii. the Governors' wish to retain ILR assurance even though it was not longer an LSC requirement;
- iii. the Birmingham office of Baker Tilly undertakes the ILR assurance work. The Watford office of Baker Tilly relies on this work in planning that end of year financial audit;
- iv. the ILR Audit does not include an audit of the Work Based Learning monthly income claims process. This was historically an audit the LSC conducted;

- v. the longevity of the current ILR Auditor was raised. Discussion was deferred to Item 7 as the same audit firm (Baker Tilly) provides the Financial Statements and Regularity audits;

RECOMMENDED TO THE GOVERNING BODY

- i. **Baker Tilly (Birmingham) is re-appointed as ILR assurance auditor to the college for the 2009/10 financial year;**
- ii. **the audit fee for the year 1st August 2009 to 31st July 2010 be agreed at no more than £6,000 exclusive of VAT (which allows for past costs and inflation).**

7. ANNUAL APPOINTMENT OF THE FINANCIAL STATEMENT AUDITOR (AND REGULARITY AUDIT SERVICE) FOR 2009/10

RECEIVED paper 7, report of the Director of Finance for decision

NOTED

- i. Baker Tilly had first been engaged to provide the statutory audit of the college's financial statements in 1999. Since that time the senior partner has been rotated;
- ii. the cost of the audit has increased but the Chief Executive Officer felt the cost had not risen at the same rate as the college's turnover or the complexity of the accounts;
- iii. Members felt a tender exercise should be undertaken for both the Financial Statements Auditor (to include Regularity Audit) and the ILR Auditor. Both audits were currently provided by Baker Tilly;
- iv. Members and officers were keen to reassure Baker Tilly that there was no question of their ability and that the decision to retender for the service was purely a commercial decision;
- v. the college was going through a very challenging period at the present time and members supported the Chief Executive's view that a tendering exercise should be undertaken before the 2011/12 financial year.

RECOMMENDED TO THE GOVERNING BODY

- i. **Baker Tilly be re-appointed as Financial Statements and Regularity Auditor to the college for 2009/10;**
- ii. **the audit fee for the year 1st August 2009 to 31st July 2010 be agreed at the next meeting when the scope of the audit will be considered;**
- iii. **that a tender exercise is undertaken for the provision of the Financial Statements and Regularity audit and ILR audit during autumn 2010 with a view to an appointment being made in readiness for the 2011/12 financial year.**

7. DATE OF NEXT MEETING: 15th June 2010 at 4.30pm (This is a change of date.)