



*"To promote lifelong learning for individuals and industry through the understanding and enjoyment of flowers, trees, plants and animals for career, business, educational and leisure purposes."*

**MINUTES OF THE AUDIT COMMITTEE MEETING  
HELD AT 5.45PM ON 30 NOVEMBER 2010**

- Members:** Roger Abraham, Chair and Governor  
Tony Leach, Governor  
Ron Melville, Governor  
Vacancy, Governor  
Vacancy, Independent Member
- Other Representatives:** Sarah Mason, Baker Tilly  
Anna Spencer Gray, Baker Tilly  
Mark Smith, Scrutton Bland  
Teresa Sharman, Scrutton Bland
- Also Attended:** Madeline Hall, Chief Executive Officer  
Steven Dowbiggin, Principal Designate  
Nicholas Evans, Director of Estates and Buildings  
Damien Fallon, Director of Finance  
Robert Howard, Governor – as observer  
Simon O'Hear, Director of Human Resources  
Mary Prince, Vice Principal  
David Triggs, Clerk to the Governing Body

The Chairman opened the meeting by welcoming everyone present with a particular welcome to Mary Prince, the new Vice-Principal. There had been some confusion regarding the start time of this meeting and the Chairman asked for confirmation that 4.30pm, the scheduled start time for the next meeting in March 2011, was acceptable to all those present. He also requested that next time the timetable of meetings is reviewed there should be a look at the timing of this meeting and its proximity to the autumn term meetings of the Finance and General Purposes Committee and Corporation.

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Ron Melville.

**2. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON THE 15 JUNE 2010**

**RESOLVED:** That the minutes of the meeting held on 15 June be approved as a correct record and signed by the Chairman.

**3. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON THE 15 JUNE 2010**

The Committee RECEIVED paper 3, the matters arising from the minutes of previous meetings.

**NOTED:** A progress report from the Chief Executive in respect of the Risk and Assurance Report on Computer Control Environment (Item 5.2 from the meeting on 24 March 2010). Six of the eight areas had been completed with those items concerning (a) the simulation of disaster recovery and (b) moving the air conditioning unit in the server room, as outstanding.

#### **4. REPORT OF THE DIRECTOR OF FINANCE**

The Committee RECEIVED paper 4, Report of the Director of Finance for information.

##### **4.1 Internal Audit Service**

**NOTED:**

- i That the reports on PAYE and Human Resources (Recruitment) referred to under papers 7 and 8 complete the internal audit work programme for 2009/2010;
- ii that the fee for Internal Audit Service and the appointment of Scrutton Bland is dealt with under paper 20;
- iii that the 2010/2011 programme of work is due to commence on Monday 6 December 2010.

##### **4.2 Financial Statement Service**

**NOTED:**

- i Baker Tilly has completed the audit of the financial statements and our regularity arrangements within time scale;
- ii the reappointment of Baker Tilly was proposed as set out in a later report (paper 20) acknowledging that this service will be the subject of competitive tender in 2011.

##### **4.3 Individual Learner Record Audit**

**NOTED:**

- i Baker Tilly have completed a review of the College Individual Learner Records (ILR);
- ii this was followed by an audit of the same by the Skills Funding Agency. Both are reported under later paper headings.

##### **4.4 Financial Management and Control Evaluation (FMCE)**

**NOTED:**

- i The filing date for the FMCE return is 30 November 2010. The College is required to meet this filing date even though the Audit Committee will not consider the report until this meeting (30 November 2010) and the Governing Body will not consider the paper until its meets on 15 December 2010. The Committee will be asked to endorse the submission of the FMCE on the understanding that the Governing Body will approve the return retrospectively;
- ii the College's SFA Account Managers have been notified of this arrangement and have agreed to it.

#### **5. REVIEW OF AREAS SUSCEPTIBLE TO FRAUD**

The Committee RECEIVED paper 5, Report of the Director of Finance.

**NOTED:**

- i The International Standard on Auditing (ISA) 240 states that: 'The primary responsibility for prevention and detection of fraud rests with those charged with governance and management.';
- ii as part of the financial statements audit, the auditor is required to obtain a representation from the Governing Body that it has assessed the requirements of the ISA;

- iii the Fraud Review Schedule provides the Governing Body with the necessary assurance from the Senior Management Team to be able to make representations about its assessment of the risk of fraud and the internal controls to prevent and detect fraud;
- iv the Schedule was relied upon by the Internal Auditor and the Financial Statement Auditor in conducting their work.

**RECOMMENDED TO THE GOVERNING BODY that:**

**the Fraud Review Schedule for 2009/10 be adopted (Appendix 1 to Paper 5).**

**6. AUDIT OF QUALITY CYCLE**

The Committee RECEIVED paper 6 from the Vice Principal for information.

**NOTED:**

- i A summary report detailing the quality cycle completion against the planned timetable for 2009/2010;
- ii the continued rigorous attention to learner satisfaction and performance and compliance with challenging deadlines.

**7. VISIT FIVE 2009/10 INTERNAL AUDIT REPORT – PAYE COMPLIANCE REVIEW**

The Committee RECEIVED paper 7 – Appendix 1, the report of Scrutton Bland.

**NOTED:**

- i areas of review;
- ii no significant irregularities were identified during the review;
- iii strong assurance level (highest possible) given;
- iv this was a non-standard report following a review by the Scrutton Bland tax team;
- v improvements were identified in the review although no inadequacy was identified in current systems and procedures;
- vi during discussion the auditors agreed to review the way future reports are presented and where possible (i.e. points 6, 7 and 8 in the action plan) highlight matters as points of added value rather than detail these in the action plan.

**RESOLVED: That the management recommendations and report of Scrutton Bland in respect to the PAYE Compliance Review be accepted.**

**8. VISIT SIX 2009/10 INTERNAL AUDIT REPORT – HUMAN RESOURCES (RECRUITMENT)**

The Committee RECEIVED paper 8 from the Director of Finance and the report of Scrutton Bland detailing the outcomes from the review of Human Resources (recruitment, selection and vetting).

**NOTED:**

- i the scope and approach of the audit;
- ii a limited assurance was given that the material risks reviewed are managed effectively in respect of controls for vetting new employees, in particular checks of the adults' and children's barred lists and the checking of CRB disclosures outstanding at the start of employment;
- iii that of the seven recommendations, one was considered high, one was rated medium and five were rated low;
- iv the audit was undertaken in May 2010 and urgent action was taken by the Director of Human Resources at that time. All seven recommendations had since been implemented. The Director of HR commented that no staff had been employed that should not have been employed;

- v following discussion Scrutton Bland agreed that the name of the audit should be amended to "Human Resources (recruitment, selection and vetting)" to accurately describe the scope of the review;
- vi that Scrutton Bland agreed to carry out a follow-up review of this area of Human Resources by summer 2011 for report to the Audit Committee.

**RESOLVED:**

- 1) **That the management recommendations and report of Scrutton Bland in respect to the review of Human Resources (Recruitment, Selection and Vetting) be accepted;**
- 2) **that Scrutton Bland be requested to complete a follow-up review of this area and report this to the Audit Committee by the summer of 2011.**

9. **INTERNAL ANNUAL AUDIT REPORT 2009/2010**

The Committee RECEIVED paper 9 from the Director of Finance and the attached report of Scrutton Bland.

**NOTED:**

- i The report provides the opinion of the internal audit service on the adequacy and effectiveness of the College's risk management, control and governance processes;
- ii in the opinion of the auditors Capel Manor College has adequate and effective governance, risk management and control processes to enable the College to manage the future and achieve its objectives;
- iii there are no significant matters to draw to the attention of the Governing Body;
- iv the Committee expressed concern that the report could be misleading (paragraphs 2 and 4 and Appendix B) as it referred to the review of HR Management when in fact this was a review of one element of Human Resources activity (recruitment, selection and vetting).

**RECOMMENDED TO THE GOVERNING BODY:**

**That the internal audit service Risk and Assurance Service Annual Report for 2009/10 be approved, subject to amending the report to clarify that the review of Human Resources was that of recruitment, selection and vetting not the whole area of HR.**

10. **REGULARITY AUDIT SELF ASSESSMENT QUESTIONNAIRE 2009/2010**

The Committee RECEIVED paper 10 from the Director of Finance.

**NOTED:**

- i The Skills Funding Agency (SFA) requires all colleges to appoint their Financial Statement Auditors to give an opinion to the SFA on the regularity of the College's expenditure, regardless of the source of the funds being spent;
- ii the College is required to annually review and update its self assessment of regularity and provide a documentary file of supporting evidence for audit review;
- iii a copy of the 2009/10 Questionnaire signed by the Chief Executive was provided to the Financial Statement Auditor.

**RECOMMENDED TO THE GOVERNING BODY:**

**That the Regularity Audit Self Assessment Questionnaire for 2009/10 be approved.**

## **11 ILR ASSURANCE AUDIT 2009/2010**

The Committee RECEIVED paper 11 from the Vice Principal.

### **NOTED:**

- i In July 2010 the College engaged Baker Tilly to undertake an internal ILR Audit Review in order for the College and its Financial Statement Auditor to satisfy them that the ILR supports an accurate funding claim;
- ii the final report and the College management response, which has been received by Baker Tilly, to observations and recommendations made;
- iii that a number of the weaknesses identified in 2008/09 were also evident in July 2010. However, the report identified specific issues that impacted on implementation of the objectives in the action plan – namely the absence of two key staff in a small team. It was noted that continued maintenance of standards, in the circumstances, was testimony to the overall robustness of existing processes;
- iv a further review for clarification of outstanding issues undertaken by Baker Tilly in September 2010 at the request of the College noted that the recommendations for action had been successfully addressed. This additional review had meant a supplementary charge of £1,000 plus VAT was incurred, in excess of the original fees of £5,677 plus VAT.

### **RESOLVED:**

- 1) That the management responses and follow up implementation be approved;**
- 2) that the Final ILR Review Management Report for the year ended 31 July 2010, be accepted;**
- 3) that expenditure of the supplementary fee of £1,000 plus VAT, as detailed in iv above, be endorsed.**

**RECOMMENDED TO THE GOVERNING BODY: That the Final ILR Review Management Report for the year ended 31 July 2010 be approved.**

## **12 SFA FUNDING ASSURANCE AUDIT 2009/2010**

The Committee RECEIVED paper 12 from the Vice Principal.

### **NOTED:**

- i In October 2010 the Skills Funding Agency (SFA) undertook a Funding Assurance Audit of the College's Learner Responsive provision for the academic year 2009/10;
- ii the draft Audit Report was received on 19 November 2010;
- iii the College secured an unqualified audit report (i.e. SFA auditors satisfied that systems and processes ensured the proper management of public funds);
- iv the three areas identified which require further action and the College responses to the recommendations made.

### **RESOLVED:**

- 1) That management responses and follow up implementation be approved;**
- 2) that the SFA Funding Assurance Audit Report for the year ended 31 July 2010 be accepted.**

**RECOMMENDED TO THE GOVERNING BODY: That the SFA Funding Assurance Audit Report for the year ended 31 July 2010 be approved.**

### 13 FINANCIAL MANAGEMENT AND CONTROL EVALUATION FOR 2009/2010

The Committee RECEIVED paper 13, report of the Director of Finance.

**NOTED:**

- i The Financial Management and Control Evaluation (FMCE) is an annual review that all further education colleges are required to complete. Its purpose is to enable the College to self-assess, evaluate and grade the operating financial management and control arrangements annually and is used to contribute to the College's Framework for Excellence Grades;
- ii the FMCE assesses financial management and control activities within four areas: Accountability, Financial Planning, Internal Control and Financial Monitoring;
- iii the main change is that this year the forms have to be returned to the Skills Funding Agency by 30 November 2010. The Committee expressed its concern at the date being brought forward and the implications for the College;
- iv the College has exercised the option of completing the short form as it is able to do so if it is not proposing a change in its grade and if it has not undergone significant changes.

**RESOLVED:**

- 1) That the completed FMCE document for the year ended 31 July 2010 be endorsed;
- 2) that the electronic submission of the 2010/11 FMCE Return to the SFA by 30 November 2010, be endorsed;
- 3) that the Chair be requested to write to the Skills Funding Agency expressing the Committee's concern that the date for the submission of the FMCE had been brought forward by one month, outlining the difficulties this causes the College.

**RECOMMENDED TO THE GOVERNING BODY: That the FMCE document, as submitted to the SFA by 30 November 2010 be adopted.**

### 14 LETTER OF REPRESENTATION 2009/2010

The Committee RECEIVED paper 14 from the Director of Finance.

**NOTED:**

- i The College is required to provide the Financial Statement Auditor (Baker Tilly) with two signed letters of representation. One covers the financial statement audit and is the responsibility of the Finance & General Purposes Committee. The other covers the regularity audit and is the responsibility of the Audit Committee;
- ii the letters appended to the Final Audit Findings Report (paper 15): Appendix B, pages 17-19: Draft letter of representation (Regularity);
- iii this relates directly to the audit process as it provides auditors with assurance that they have had access to all the information they require to form an opinion.

**RECOMMENDED TO THE GOVERNING BODY:**

**That the Chairman of Governors and the Chief Executive be empowered to sign the Letter of Representation (Appendix B) for the regularity audit for the year ended 31 July 2010 on behalf of the Corporation.**

**15 FINAL AUDIT FINDINGS REPORT FROM THE FINANCIAL STATEMENT AUDITOR 2009/2010**

The Committee RECEIVED paper 15 from the Director of Finance and the Final Audit Findings Report for 2009/2010 of Baker Tilly.

**NOTED:**

- i The Audit Committee is responsible for considering the Audit Findings Report produced by the external financial statements auditor;
- ii the report for the year ended 31 July 2010 as attached as Appendix 1 to the Report;
- iii the two matters raised by the auditor in Section 6 were discussed at the audit closure meeting.

**RESOLVED:**

- 1) That the management responses to matters arising from the audit of the year ended 31 July 2010 be approved;
- 2) that the Capel Manor College Audit Findings Report for the year ended 31 July 2010 issued by Baker Tilly UK Audit LLP be accepted.

**RECOMMENDED TO THE GOVERNING BODY:**

**That the Capel Manor College Audit Findings Report for the year ended 31 July 2010 issued by Baker Tilly UK Audit LLP be approved.**

**16 REPORT AND FINANCIAL STATEMENTS FOR 2009/2010**

The Committee RECEIVED paper 16 from the Director of Finance.

**NOTED:**

- i The financial statements for Capel Manor College for the year ended 31 July 2010;
- ii the financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (the SORP) and in accordance with applicable Accounting Standards. They conform to guidance issued by the Skills Funding Agency in the 2009/10 Accounts Direction Handbook;
- iii governors are responsible for making a Statement of Corporate Governance and Internal Control in the annual report and financial statements (Appendix I pages 14-20). The Statement should confirm that the major risks to which the College is exposed, as identified by the Corporation, have been reviewed and systems have been established to mitigate those risks. It should also include assurance that the College has spent its funds with propriety and regularity;
- iv the Audit Committee is responsible for the consideration of the Statement of Corporate Governance and Internal Control as part of the Corporation's approval of the Annual Report and Financial Statements.

**RECOMMENDED TO THE GOVERNING BODY:**

**That the Statement of Corporate Governance and Internal Control included in the Report and Financial Statements for the year ended 31 July 2010 be adopted.**

## 17 ANNUAL RISK MANAGEMENT REPORT FOR 2009/2010

The Committee RECEIVED paper 17 from the Chief Executive.

### NOTED:

- i The College has a detailed Risk Management Policy defining the role of the Governing Body, its committees and the senior management team in the risk management process;
- ii that a report to the Governing Body on 14 July 2010 appraised Governors of the work undertaken by the committees which discharged their role within the policy;
- iii the Governing Body accepted and adopted the revised risk review schedule and the resulting Risk Management Action Plan (RMAP) for 2010/11;
- iv the internal auditor included an assessment of the College's compliance to its Risk Management Policy in their overall assurance section (6) in their annual report for 2009/10. The policy and its use were considered strong;
- v the year proved challenging. Given developments which have affected funding levels and the courses which are fundable, the adequacy of the Risk Management process has been tested;
- vi there were no instances in the year of major threat to the college which had not been identified and mitigated by the current Risk Management Action Plan;
- vii the Risk Management Action Plan was updated and adopted at the meeting of the Governing Body on 14 July 2010;

### RECOMMENDED TO THE GOVERNING BODY:

That the following paragraphs be included in the Annual Report of the Audit Committee to the Corporation and the Accounting Officer for the year ended 31<sup>st</sup> July 2010.

*"The Governing Body received a detailed report on the College's Risk Management Policy on the 14 July 2010 and as a result of their review of the policy, made amendments to the Risk Schedule and Risk Management Action Plan for 2010/11."*

*"The Audit Committee received a report on the College's compliance to its Policy and its effectiveness in assisting the College to manage its risks on 30 November 2010 and concluded that the College had complied to the Policy in 2009/10 and that the Policy had been effective in assisting the College to manage its risks during 2009/10."*

## 18 EVALUATION OF PERFORMANCE OF AUDITORS FOR 2009/2010

The Committee RECEIVED paper 18 from the Director of Finance.

### NOTED:

- i The agreed performance indicators for the internal audit service (IAS) and the financial statements auditor (FSA);
- ii Senior Management Team had assessed the performance of the IAS and FSA against agreed targets for the year ended 31 July 2010;
- iii the performance of the ISA and the FSA are deemed to be of a Good standard;
- iv the Committee responded positively to each of the following questions on the FSA:
  - Q14 - Did the auditors attend Audit Committee meetings and deal with queries raised at the committee adequately?
  - Q15 - Did the auditors discuss with the Audit Committee any areas for improvement in their audit approach?
  - Q21 - It is recommended that the incumbent audit provider be reappointed for the forthcoming year?

## **RECOMMENDED TO THE GOVERNING BODY:**

**That the evaluation of the performance of IAS and FSA for the year ended 31 July 2010, as laid out in Appendix 1 and 2, and as amended in paragraph iv above, be accepted.**

## **19 ANNUAL REPORT OF THE AUDIT COMMITTEE 2009/2010**

The Committee RECEIVED paper 19, a draft report of the Audit Committee.

### **NOTED:**

- i It is a requirement of the Audit Code of Practice that the Annual Report of the Audit Committee is presented to both the Governing Body and the Chief Executive (Principal) as the accounting officer for the College;
- ii the Annual Report of the Audit Committee is a summary document explaining the work of the Audit Committee during the course of the year and how the Committee has fulfilled its responsibilities as set out in its terms of reference;
- iii the Annual Report of the Audit Committee must be available to the Governing Body for consideration prior to the Annual Report and Financial Statements being adopted and signed.

### **RESOLVED:**

- 1) That the overall assessment of the performance of the Internal Audit Service and the Financial Statements Auditor be added to the Annual Report of the Audit Committee for the year ended 31 July 2010;**
- 2) that the paragraph on risk management included in the Annual Risk Management Report for the year ended 31 July 2010 be confirmed.**

## **RECOMMENDED TO THE GOVERNING BODY:**

**That the Annual Report of the Audit Committee to the Corporation and Accounting Officer for the year ended 31 July 2010 be adopted subject to the above amendments.**

## **20 REAPPOINTMENT OF THE INTERNAL AUDIT SERVICE FOR 2010/2011**

The Committee RECEIVED paper 20 from the Director of Finance.

### **NOTED:**

- i Scrutton Bland was appointed to the position of internal auditor by the Governing Body at its meeting in December 2009. This was the outcome of a competitive tendering exercise for the provision of this service from 16 September 2009 for the three financial years 2009/10, 2010/11 and 2011/12;
- ii the letter of engagement with Scrutton Bland allows for this appointment to be subject to satisfactory annual performance review by the Audit Committee and recommendation to the Governing Body. It is college practice for the Governing Body to fix the remuneration for this service on the advice of the Audit Committee;
- iii that Mark Smith is the new audit partner from Scrutton Bland;
- iv Teresa Sharman, Audit Manager, will remain assigned to the College;
- v the Director of Finance and the Chief Executive were assured that this change in personnel would not impact on the high quality of service that the College has received during the last year;
- vi the letter of engagement with Scrutton Bland allows for an initial daily rate of £465 at appointment with increases in subsequent years at the rate of increase in RPI prevalent at the preceding financial year-end of the College. Scrutton Bland advised that the RPI increase was in excess of 5%. The College responded that any increase must be off-set by efficiency savings;

- vii Scrutton Bland propose a 2% increase in the daily rate and a reduction in the number of audit days from the proposed 36.5 at the June 2010 committee meeting to 35.5 days. Time will be saved on the Cash, Banking and Treasury audit – which is now allocated 3.5 days.

**RECOMMENDED TO THE GOVERNING BODY:**

- 1) That Scrutton Bland be reappointed as the internal audit service provider for 2010/11;
- 2) That the audit fee for the year 1 August 2010 to 31 July 2011 identified in the annual internal audit plan considered at the previous meeting, amended for the reduction of one day on the Cash, Banking and Treasury audit, be agreed at £16,837.65 per annum excluding VAT. This fee is based on 35.5 days of service at £474.30 per day.

21 DATE OF NEXT MEETING: Wednesday 23<sup>rd</sup> March 2011 at 4.30pm.