

KING GEORGE V FURTHER EDUCATION CORPORATION

MEETING OF THE GOVERNORS AUDIT COMMITTEE

5.30pm Monday 16 June 2014

PRESENT

Rob Fletcher (Governor)
Bill Johnson (Governor)
Nick King (Staff Governor)
Sandra Unsworth (Governor)
In Attendance
Adele Wills (Principal)
Ian Swift (Vice Principal)
Will Melia (Assistant Principal - Finance and Information Services)
Wendy Moorcroft (Clerk)
Paul Haydock (Baker Tilly) until 6.35pm
Dale Thorpe (Baker Tilly) from 6.05pm until 6.35pm

A Quorum being present Rob Fletcher in the Chair opened the meeting at 5.35pm.

14/01 Apologies

Julian McInerney (Governor)

14/02 Minutes of the Meeting of 25 November 2013

The minutes were accepted as a true and accurate record and signed by the Chairman.

14/03 Matters Arising

There were no matters arising.

14/04 Internal Audit Reports

Paul Haydock from Baker Tilly presented the Internal Audit Report reports.

The areas covered were as follows:

Progress Report

Governors noted the Progress Report which summarised the work completed to date. As a result of the merger of RSM Tenon and Baker Tilly, Baker Tilly currently provided both the internal and the external audit service. It was important to note that the planned work in relation to 'Financial Control – Payroll' would now be undertaken by the Baker Tilly external audit team. Traditionally where the external audit and internal audit service had been undertaken by different providers, external auditors had placed reliance on the work of the internal audit service in relation to financial control. Now that Baker Tilly was providing both services the external audit team would carry out the financial controls work to maintain transparency and avoid potential conflict of interest between both teams. As a consequence Internal Audit had not provided a formal assurance opinion on the work carried out in the reports to be discussed this evening although recommendations classified as either high, medium or low priority were still identified. Discussion on the reappointment of auditors for the year ahead would take place later in the meeting. A Client Briefing on a potential fraud threat where fraudsters purporting to represent genuine suppliers were contacting

organisations to request changes to suppliers bank account details to divert payments was attached for information. Mr Melia, Assistant Principal, reported that the College had been subject to such an attempt but controls in place meant this had been thwarted.

Follow Up

Mr Haydock reported that a review of progress against recommendations from previous audit reports had been undertaken. Based on the work undertaken, the overall conclusion was that the College had demonstrated adequate progress in implementing actions to address internal audit recommendations with 5 of the 7 recommendations implemented. Plans for implementation of outstanding recommendations were in place.

Employee Performance Management

Mr Haydock advised that as reported earlier there was no formal assurance opinion for the reasons given earlier. The objective of the work undertaken was to ensure employee performance was maximised to support the overall performance and quality standards of the College. Two medium and five low priority recommendation had been identified. The two medium recommendations related to completion of appraisal records in line with deadline and introduction of a standard timeframe for lesson re-observations where these were required. The recommendations had been accepted by management and dates for implementation had been agreed.

Student Records – 16-18 Classroom Based Provision

Mr Haydock advised that as reported earlier there was no formal assurance opinion for the reasons given earlier. The objective of the work undertaken was to ensure student information was recorded in a timely and accurate manner following changes made to the EFA funding principles. Seven low priority recommendations were identified and these related primarily to compliance testing and the exceptions noted. None would have had a funding implication but it was important to maintain accuracy of data. Mr Melia confirmed that the Audit work had been useful following the changes to funding requirements.

The Committee noted the reports.

14/05 Financial Statements and Regularity Audit Performance and Satisfaction Assessment Report

The Committee considered the External Audit Performance Indicators for 2012/13. Mr Melia was pleased to report that there had been no significant issues and that the College had been very satisfied with the service provided by Baker Tilly.

The Committee approved the Performance Indicators and the responses from the College for signature by the Chairman and submission to Full Board for approval.

The Committee the reviewed the performance criteria and concluded that they were still considered to be relevant and appropriate for 2013/14.

14/06 Strategy for Internal Audit Update for 2014/15

Paul Haydock from Baker Tilly presented the proposed strategy for internal audit for 2014/15 subject to being reappointed. The planned assignments had been agreed in discussion with senior management and covered Capital Project Management in light of the extensive capital building work underway, HR Healthcheck, Student Records and Pastoral system. As referred to earlier there was no allocation for key financial controls assignment as this had been transferred to external audit to avoid duplication and confusion in the respective roles as Baker Tilly were currently providing both internal and external service.

Governors were concerned that this did not appear to give as strong an assurance to the Board and deferred further discussion until Mr Thorpe (who was delayed in traffic) from Baker Tilly arrived.

14/07 External Audit Strategy

This item was also deferred until the arrival of Mr Thorpe

14/08 Audit Committee Self Assessment Checklist 2012/13

The Clerk presented the Audit Committee Self Assessment report for consideration by the Committee, which had been prepared as in previous years based on the guidance in Circular 98/15 the Audit Code of Practice. This Circular had now been superseded by Circular 04/07 the Audit Code of Practice which contained no guidance or any recommendation relating to the completion of a Self Assessment by the Committee. The Committee considered that it was still good practice to continue to carry out an annual Self Assessment to ensure that it continued to understand its role and responsibilities.

After discussion the Committee approved the Self Assessment Report for signature by the Chairman and submission to Full Board for approval.

14/09 Risk Management and Internal Control Report

Will Melia presented the update on Risk Management and Internal Control. The Risk Management Group had met once this year. Minutes were attached for information. The Easter meeting had been postponed due to the support staff restructuring review but had now been rescheduled.

Dale Thorpe arrived at this point (6.05pm).

Much of the report had been covered earlier by Baker Tilly. Governors asked who would take on responsibility for risk management when Mr Melia left. Mr Swift reported that he would be taking on this role in future.

The Committee noted the report.

14/10 Annual Review of Key High Risk Factors

One of the recommendations arising from a past Internal Audit Report on Risk Management was that the Audit Committee annually reviews the key top ten risks. These had been summarised for the Committee to review and Mr Melia presented the report.

There had been no change to the risk factors since last year but the comments had been updated to reflect the current situation. The key risks related primarily to funding and student numbers. Governors asked whether the risk to reputation and brand should be included. Mr Melia advised that this was included in the risk register but not the top ten by ranking. The Principal reported that it was the risks identified in the top ten which underpinned reputation and brand. The marketing of the College as a smaller high quality institution and liaison and partnership work was also an important factor in terms of reputation and brand.

The Committee noted the report

14/11 Progress Report on the Implementation of Recommendations made in Auditors Reports

Will Melia, Assistant Principal, reported on the progress of the implementation of Auditors recommendations.

The report summarised all recommendations based on the reports from the Internal Audit Service and the Financial Statements Auditors with progress indicated by either Y for completed, P for partially completed or N for no progress to date. Those items identified as having been completed would not appear on future reports.

The fixed asset labelling process had resource implications following staffing changes. The financial regulations would be updated to reflect user access processes.

The Committee noted the progress against Auditors recommendations

14/06 Strategy for Internal Audit Update for 2014/15 and 14/07 External Audit Strategy

The Chairman outline the Committee's concerns in relation to the changes in which the internal audit reports were presented in terms of no longer providing an assurance opinion. Mr Dale Thorpe, Partner, from Baker Tilly, explained to the Committee that ethical standards prohibited the external audit service from placing reliance on the work of internal audit where the services were carried out by the same firm. Mr Thorpe advised that the external audit team would therefore have to undertake the financial control work and the assurance would still be there but delivered in a different way. There would however as a result be no internal audit annual opinion report. Governors asked if there was any reason why the internal auditors would not be able to give assurance opinions on non key financial control areas. Mr Thorpe thought this might be possible and would investigate. Mr Thorpe then presented the proposed External Audit Strategy report for 2014 subject to reappointment. The purpose of the report was to explain the scope of the audit, the audit approach and to highlight the key risks the audit work would be focusing on. The primary responsibility was to form an opinion on the financial statements and also the regularity audit opinion that income received had been applied for the purpose for which it was intended. Section 2 of the report set out the scope of the audit in detail in terms of the reliance on internal control, the approach with regard to regularity audit, materiality and the adjustment of errors and the requirement for an assessment of the going concern assumption. Funding Body guidance however was still awaited. The section also included a timetable for the required work. A planning meeting had already taken place and the fieldwork was scheduled for October/November. Section 3 identified the key risks affecting the audit strategy and these included numbers, funding, restructuring, capital projects and going concern. Section 4 set out the fee arrangements which now incorporated the financial control work transferred from internal audit. Control matters identified last year would also be reviewed.

The Committee noted the proposed Strategy for Internal Audit 2014/15 and External Audit Strategy for the year ended 31 July 2014 subject to reappointment.

After confirming that there were no items for discussion in the absence of senior management the representatives from both the internal and external audit providers left the meeting (6.35pm)

14/12 Reappointment of College Auditors

The Clerk presented the paper on the Reappointment of College Auditors. RSM Tenon formerly known as Bentley Jennison had merged last year with Bsaker Tilly and had

continued to be the Internal Audit providers having been appointed on an annual basis once the initial contract period had ended. Baker Tilly were also currently the Financial Statements and Regularity Audit providers for the College having been appointed as Financial Statements Auditor for a period of three years from 1 August 2009 and reappointed on an annual basis thereafter.

The revised Joint Audit Code of Practice had as expected removed the requirement for colleges to have an Internal Audit Service. It was however permissible for colleges to have the same auditors for both internal and external audit services.

The Audit Committee had agreed however that there continue to be some internal audit provision in order to provide the necessary assurance to Governors and External Audit.

The issue with regard to provision of audit opinion and whether this now provided adequate assurance to the Board was discussed again. The Committee felt the College was possibly in a weaker position assurance wise as a result of the merger. Timing however was an issue in terms of going out to tender.

After discussion the Committee agreed to recommend to the Board that subject to assurance from Baker Tilly that the key financial control work would be carried out by the external audit team with the same rigour as previously undertaken by the internal audit service and also, subject to the Internal audit team being able to give an assurance opinion on non key financial control work, Baker Tilly be reappointed for a further year as both internal and external (Financial Statement’s and Regularity) auditors. The College would however undertake a tender process to look at other possible options for the future.

14/13 Review of Annual Cycle of Decision-making

The Committee reviewed the Annual Cycle of Decision Making for the year noting the dates of audit meetings when each of the items in the Annual Cycle had been discussed by the Committee. No changes to the Annual Cycle of Decision Making were proposed.

The Committee approved the Annual Cycle of Decision Making.

14/14 Matters to be discussed in the absence of Senior Management

There were no matters for discussion.

14/15 Any Other Business

There was no other business.

14/16 Date of Next Meeting

8 September 2014 at 5.30pm

There being no other business the meeting closed at 7.05pm.

SIGNED BY THE CHAIR AS A TRUE AND ACCURATE RECORD

..... DATE