

THE FURTHER EDUCATION CORPORATION OF MIDDLESBROUGH COLLEGE

AUDIT COMMITTEE

Minutes of the Audit Committee held on
Tuesday 13 September 2011 at 4.15 pm in the in the Board Room.

**A PRIVATE DISCUSSION WITH THE INTERNAL AUDITOR
(RSM TENON) & THE FINANCIAL STATEMENTS AUDITOR (KPMG) TOOK
PLACE PRIOR TO THE AUDIT COMMITTEE MEETING COMMENCING – NO
ISSUES WERE RAISED DURING DISCUSSIONS THAT WERE NOT
MINUTED ELSEWHERE ON THE AGENDA**

Present	Miss S Shepherd	Chairman	College Governor
	Mr J Autherson		College Governor
	Mrs S Bates		College Governor
	Mr F Hayes		External Member
	Mr R Johns		Staff Governor (Academic)

Officers	Mr R Atkinson	Assistant Principal - Marketing, Communication, Registry and Admissions & Clerk to the Corporation
	Ms M Bulman	Assistant Principal - Finance
	Mrs Z Lewis	Deputy Principal - Corporate Services

In attendance (*Agenda items 1 - 5.2 & 9 only*)

Mr P Bland	Assistant Principal - Information Services & Estates
Mrs V Howey	Assistant Principal - Human Resources

Auditors	Mrs E Casson	KPMG
	Mrs S Turner	RSM Tenon

It was **agreed** that:

- the agenda would be amended so that items 1 - 5.2 would be discussed followed by agenda item 9 before reverting to agenda item 6.

The Chairman of the Audit Committee then welcomed Mr Ray Johns, Staff Governor (Academic) to his first meeting following the appointment on the 11 July 2011.

11/019 **ITEM 1 APOLOGIES**

Mr P Fiddaman	College Governor
Mr M McClintock	College Governor
Mr I Wallace	RSM Tenon
Mrs A Yates	RSM Tenon

11/020 **ITEM 2 MINUTES – 14 JUNE 2011**

These were approved as a true record and duly signed by the Chairman of the Audit Committee.

11/021 **ITEM 3 MATTERS ARISING**

None.

11/022 **ITEM 4 MARKETING, COMMUNICATION, REGISTRY, AND ADMISSIONS & CLERK TO THE CORPORATION DATA AUDIT GROUP REPORTS 2010 / 2011**

4.1 Marketing, Communication, Registry, and Admissions & Clerk to the Corporation Data Audit Group *(Audit of the LSC Funding Claim and ILR for the Year Ended 31 July 2011, Phase 1 Update)*

The Phase 1 up-date was noted for information.

4.2 Marketing, Communication, Registry, and Admissions & Clerk to the Corporation Data Audit Group *(Audit of the LSC Funding Claim and ILR for the Year Ended 31 July 2011, Phase 2)*

The Assistant Principal - Marketing, Communication, Registry and Admissions & Clerk to the Corporation verbally reported that only some of the phase 2 audit had been completed, as this had been superseded by the Learner Numbers Mock Funding Audit Internal Audit Report, which had taken place in August 2011.

The Learner Numbers Mock Funding Audit Internal draft report is still awaited and would be discussed at the next Audit Committee on the 6 December 2011.

11/023 **ITEM 5 INTERNAL AUDIT REPORTS**

Internal Audit Reports 2010 / 2011

5.1 Human Resources
(Celcat Payclaims Management System)
(08.2010/11)

Mrs Sue Turner presented the Human Resources (*Celcat Payclaims Management System*) Internal Audit Report and it was noted that **substantial** assurance was given with two medium recommendations, which are being addressed by the College Leadership Team.

- We recommend that users set up on the payroll system, SfP, are reviewed and updated to reflect only current active users (*medium*).
- We recommend that, when possible, all hourly paid staff are paid through the Celcat Payclaim Management System (*medium*).

The Assistant Principal - Human Resources who was in attendance for this item gave the Audit Committee a brief up-date on progress being made with these audit points with the first audit point having been implemented and the second being work in progress.

No further issues were discussed.

5.2 IT
(Capacity Management)
(Data Storage & Archiving)
(10.2010/11)

Mrs Sue Turner presented the IT (*Capacity Management, Data Storage & Archiving*) Internal Audit Report and it was noted that **substantial** assurance was given with two medium and one low recommendations, which are being addressed by the College Leadership Team.

- With reference to ITIL, the College should review the need for a Capacity Plan, to be maintained by the Assistant Principal and used as a basis for regular reporting to senior management on overall IT capacity capability and requirements.

A Demand Management process to be incorporate into the draft Policy and Procedures, emphasising the proactive role that Capacity Management has in influencing user behaviour.

Tuning and optimisation to be explicitly stated as part of the IS role, to give context to the need for monitoring tools and processes.

Following this review, the draft Capacity Management Policy and Procedures documentation should be updated, formally approved and implemented (*medium*).

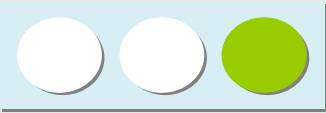
- Management should ascertain whether any data held indefinitely on monthly backup media is likely to contravene the College’s data archival policy and/or the Fifth Principle of the Data Protection Act 1998 (*medium*).



The Assistant Principal - Information Services & Estates who was in attendance for this item gave the Audit Committee a brief up-date on progress being made with these audit points, which are all being implemented during the Autumn Term.

No further issues were discussed.

11/024 **ITEM 6 INTERNAL AUDIT ANNUAL REPORT (RSM TENON) 2010 / 2011**

Mrs Sue Turner presented the Internal Audit Annual Report detailing the assurance level for Middlesbrough College during the 2010 / 2011 Academic Year and highlighted the overall Audit Opinion to the Audit Committee - Extract (page 1).

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of Middlesbrough College’s arrangements.				
For the 12 months ended 31 July 2011, based on the work we have undertaken, our opinion regarding the adequacy and effectiveness of Middlesbrough College’s arrangements for governance, risk management and control arrangements is as follows:				
	Red	Amber	Green	
Governance				A positive opinion, whereby a sound control framework has been established and is consistently applied.

Risk Management		A positive opinion, whereby a sound control framework has been established and is consistently applied.
Control		A positive opinion, whereby a sound control framework has been established and is consistently applied.

The Operational Assurance levels were also discussed, as detailed on page fourteen of the 2010 / 2011 Internal Audit Annual Report.

<p>We have reviewed and evaluated the College's processes in a number of business areas as set out at Appendix B. From these examinations, taking into account the relative risk of the business areas, we have formed the following conclusions regarding the policies, procedures and operations in place to:</p>	
	Good
Establish and monitor the achievement of the college's objectives.	✓
Identify, assess and manage the risks to achieving the college's objectives.	✓
Advise on, formulate, and evaluate policy, within the responsibilities of the Principal as accounting officer.	✓
Ensure economical and efficient use of resources.	✓
Ensure compliance with the College's policies, procedures, laws and regulations.	✓
Safeguard the College's assets and interest from losses of all kinds, including those from fraud, irregularity and corruption.	✓
Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.	✓

No limited assurance reports have been received in 2010 / 2011.

The Audit Committee then briefly discussed the benchmarking data, which highlighted that the number of significant recommendations have decreased in 2010 / 2011 from 40% to 30% with 100% of reports being given substantial assurance as opposed to 75% in 2009 / 2010.

The Audit Committee welcomed this set of data.

Levels of Assurance for Middlesbrough College

(Extract from the 2010 / 2011 Annual Internal Audit Report, page 4)

	Substantial (now green)	Adequate (now amber)	Limited (now red)
2010 / 2011	100%	0%	0%
2009 / 2010	75%	25%	0%
2008 / 2009	45%	55%	0%
2007 / 2008	91%	9%	0%

Number of Recommendations for Middlesbrough College

(Extract from the 2010 / 2011 (Annual Internal Audit Report, page 4)

	Fundamental (now high)	Significant (now medium)	Merits Attention (now low)
2010 / 2011	0%	30%	70%
2009 / 2010	0%	40%	60%
2008 / 2009	0%	35%	65%
2007 / 2008	0%	25%	75%

After consideration of the 2010 / 2011 Internal Audit Annual Report including the benchmark data, number of recommendations received and the level of assurance of all reports, it was **agreed to recommend** that:

- the Internal Audit Annual Report for 2010 / 2011 be approved by the Governing Body at its meeting on the 10 October 2011.

It was further **agreed** that:

- the 2010 / 2011 Internal Audit Annual Report would be an integral part of the Annual Report of the Audit Committee for 2010 / 2011, which would be subject to further discussion at the Audit Committee on the 6 December 2011.

11/025 **ITEM 7 INTERNAL AUDIT (RSM TENON) NEEDS ASSESSMENT & PERIODIC PLAN FOR MIDDLESBROUGH COLLEGE 2009 / 2010 – 2013 / 2014 UP-DATE**

Mrs Sue Turner presented the 2011 / 2012 Internal Audit Operational Plan and requested that the Audit Committee considers the plan prior to approving or amending it and explained that the number of audit days has remained at fifty five, including three contingency days.

The following audits are planned for 2011 / 2012:

Audit	Number of Days	Audit Committee
Marketing	4	March 2012
Staff Utilisation	7	June 2012
Bursary Scheme & Benefits Package	4	December 2011
Subcontracting	5	March 2012
Financial Systems (Procurement & Payments)	4	June 2012
Learner Number Systems	7	December 2011
IT	4	June 2012
Department Review (A Levels)	4	June 2012
Data Protection Act	4	June 2012
Follow Up	1	June 2012
Management	8	
Total	52 (excluding contingency)	

During discussion, the Audit Committee was informed that audits for the three College Subsidiary Companies would take place in 2012 / 2013 and this would form part of the plan to be approved this time next year.

After discussion on the audits planned, the days planned per audit and the timing of the reports to be discussed at the Audit Committee, it was **agreed to recommend** that:

- the Internal Audit Operational Plan of 52 days (*excluding contingency of three*) for 2011 / 2012 as detailed in Appendices A and B of the report be approved by the Governing Body at its meeting on the 10 October 2011.
- the 2011 / 2012 Internal Audit (RSM Tenon) annual fee of £22,376 (*excluding contingency*) be approved by the Governing Body at its meeting on the 10 October 2011.

11/026 **ITEM 8 INTERNAL AUDIT CHARTER**

Mrs Sue Turner presented the Internal Audit Charter, which establishes the purpose, authority and responsibilities for the Internal Audit Service and is similar to the Engagement Letter. After discussion on the document, its rationale and its content as detailed on pages 1 to 3, it was **agreed** that:

- the Internal Audit Charter is approved and would be signed by the Chairman of the Audit Committee prior to being send to RSM Tenon.

11/027 **ITEM 9 EXCEPTION REPORTING TO MONITOR PROGRESS RESULTING FROM PREVIOUS AUDITS**

The Deputy Principal - Corporate Services presented the Exception Report detailing the reports from previous audits with twelve recommendations outstanding; three of which were significant.

75% of the recommendations are merits attention.

During this item, the Chairman of the Audit Committee requested that the Assistant Principal - Information Services & Estates brief the Audit Committee on any issues still outstanding in this area.

IT & Estates

In relation to IT and Estates, the Assistant Principal informed the Audit Committee that three audit points remain outstanding in relation to Network Security (10.2008/09), Estates Management (09.2009/10) and IT Hardware & Software (10.2009/10).

A brief overview on progress was noted on all three audit points with all action being progressed and further up-dates will be shared with the Audit Committee on the 6 December 2011.

In relation to the Network Security (10.2008/09) audit point, the roll out of the encryption is due to commence in the Autumn Term having been delayed following discussions with the College Leadership Team in the summer.

In relation to the Estates Management (09.2009/10) audit point, software has now been identified and was in the process of being implemented. The Assistant Principal - Information Services & IT was confident that this would be able to satisfy the needs of the business and improve its services.

In relation to the IT Hardware & Software (10.2009/10) audit point, most forms had been collected but this had been challenging from an administration point of view. Some recent changes to the IT System now means that staff have to read and agree to the Staff Computer Use Policy before they can log on. This had been successful in capturing a large number of staff and records would be kept electronically, which should satisfy this audit point.

The Audit Committee welcomed the up-date.

(The Assistant Principal - Human Resources and the Assistant Principal - Information Services & Estates left at the end of this item and the Chairman of the Audit Committee thanked them for their attendance and input.)

The report was considered and received.

11/028 **ITEM 10 2010 / 2011 FINANCIAL STATEMENTS
AUDIT PROGRESS**

Mrs Emma Casson verbally up-dated the Audit Committee on the plans for the audit of the Financial Statements for 2010 / 2011, which would commence on the 19 September 2011 followed by detailed work on the Financial Statements during the weeks of the 24 & 31 October 2011.

The Audit Committee welcomed the up-date.

11/029 **ITEM 11 2010 / 2011 REGULARITY AUDIT**

The Deputy Principal - Corporate Services and Assistant Principal - Finance presented the 2010 / 2011 Regularity following discussions with KPMG.

The document has been compiled by the Assistant Principal - Finance (Financial Issues) and the Assistant Principal - Marketing, Communication, Registry and Admissions & Clerk to the Corporation (Governance issues) prior to being approved by the Senior Management Team on the 12 September 2011.

It was reported that the Regularity Audit needs to be agreed by the Audit Committee prior to the 2010 / 2011 Financial Statements being signed off. After discussion on the contents and the addition of extra information relating to question 38, it was **agreed** that:

- the 2010 / 2011 Regularity Audit document is approved.

11/030 **ITEM 12 PERFORMANCE INDICATORS**

12.1 Performance Indicators Outcome 2010 / 2011

The Assistant Principal - Marketing, Communication, Registry and Admissions & Clerk to the Corporation in conjunction with the Deputy Principal - Corporate Services presented this item following approval.

Internal Audit

The contents of the 2010 / 2011 Internal Audit Performance Indicators for RSM Tenon were considered and received. The Audit Committee welcomed the performance during 2010 / 2011 and after consideration of the responses made on the 18 August 2011, it was **agreed to recommend** that:

- RSM Tenon be approved as the Internal Auditor for the Academic Year 2011 / 2012 at the agreed remuneration and audit days, as previously recommended for approval under agenda item 7.

Financial Statements & Regularity Auditors

The contents of the 2010 / 2011 Financial Statements & Regularity Auditors Performance Indicators for KPMG were considered and received. The Audit Committee welcomed the performance during 2010 / 2011 and after consideration of the responses made on the 18 August 2011, it was **agreed to recommend** that:

- KPMG be approved as the Financial Statements / Regularity Auditor for the Academic Year 2011 / 2012 (*2010 / 2011 Financial Statements*) at the agreed remuneration and audit days, as previously agreed on the 14 June 2011.

12.2 Performance Indicators for the Internal Auditor 2011 / 2012 (RSM Tenon)

The Assistant Principal - Marketing, Communication, Registry and Admissions & Clerk to the Corporation then presented the Performance Indicators for 2011 / 2012 following discussions with the Internal Audit Service over the summer.

After some discussion on the rationale for no changes being made, it was **agreed to recommend** that:

- the Internal Auditor's (RSM Tenon) Performance Indicators for 2011 / 2012 be approved by the Governing Body at its meeting on the 10 October 2011, as detailed in **Appendix 1** of these minutes.

12.3 Performance Indicators for the Financial Statements & Regularity Auditor 2011 / 2012 (KPMG)

The Assistant Principal - Marketing, Communication, Registry and Admissions & Clerk to the Corporation then presented the revised Performance Indicators for 2011 / 2012 following discussions with the Financial Statements & Regularity Auditor over the summer.

After discussions on the rationale for no changes being made, it was **agreed to recommend** that:

- the Financial Statements & Regularity Auditors' (KPMG) Performance Indicators for the Academic Year 2011 / 2012 (*Financial Statements 2010 / 2011*) be approved by the Governing Body at its meeting on the 10 October 2011, as detailed in **Appendix 2** of these minutes.

It was noted that whilst KPMG's Performance Indicators relate to the 2011 / 2012 Academic Year, they do in fact correspond to the 2010 / 2011 Financial Statements – these will be amended to reflect this.

11/031 **ITEM 13 AUDIT COMMITTEE SELF ASSESSMENT RESULTS 2010 & 2011**

The Assistant Principal - Marketing, Communication, Registry and Admissions & Clerk to the Corporation and Chairman of the Audit Committee presented the findings of the Audit Committee Self Assessment 2010 / 2011.

The Audit Committee debated the results and decided that no further action would be taken as many of the issues raised had been addressed since the self assessment had taken place. The next review was agreed as Spring 2013.

11/032 **ITEM 14 MEMBERS DISCUSSION**

The Audit Committee held a Members Discussion with no auditors present with no issues reported.

11/033 **ITEM 15 DATE OF NEXT MEETING**

The Audit Committee will meet as follows in 2011 / 2012.

- Tuesday 6 December 2011 at 4.15 pm.
- Tuesday 13 March 2012 at 4.15 pm.
- Tuesday 12 June 2012 at 4.15 pm.

11/034 **ITEM 16 ANY OTHER URGENT BUSINESS**

None.

The meeting closed at 5.15 pm.

.....

Committee Circulation

Miss S Shepherd	College Governor
Mr J Autherson	College Governor
Mrs S Bates	College Governor
Mr P Fiddaman	College Governor
Mr F Hayes	External Member
Mr M McClintock	College Governor
Mr R Johns	Staff Governor (Academic)
Mrs E Casson	KPMG
Mr I Wallace	RSM Tenon
Ms M Bulman	Assistant Principal - Finance
Mr D White	Interim Vice Principal - Corporate Services
Mrs Z Lewis	Deputy Principal - Corporate Services



Appendix 1

Performance Indicators for the Internal Auditor (RSM Tenon) 2011 / 2012

Quantitative Performance Indicators

	Question	Target Set
1	Percentage attendance at Audit Committee Meetings.	100% attendance.
2	Turnaround of audit reports following the completion of the audit fieldwork.	90% of draft audit reports issued within 15 working days of the completion of audit fieldwork.
3	Percentage of the internal audit report analysis / recommendations accepted for validity by the Senior Management Team following the issue of the draft report.	90% of recommendations are accepted.
4	Planned audit days against target days, as agreed with the Audit Committee.	95% of the agreed Audit Plan.
5	Turnaround of finalised reports after receipt of the management response from the College.	95% of all finalised reports received within 5 working days.
6	Deadline of reports submitted to the Clerk to the Corporation for the respective Audit Committee meetings.	90% of reports received within agreed deadline dates as set by the Assistant Principal - Marketing, Communication, Registry and Admissions & Clerk to the Corporation in liaison with the College Management Team.
7	Percentage attendance of Client Manager at Audit de-brief sessions.	100% attendance.
8	Audit de-brief sessions to take place within 5 working days of the completion of the audit fieldwork.	100%

Qualitative Performance Indicators

	Question
1	Was the Internal Audit work planned appropriately?
2	Did the skills and make-up of the team meet expectations and what staff continuity was there from previous visits?
3	Were written reports clear, concise and accurate?
4	Did the Internal Auditors deal with queries raised at the Audit Committee adequately?
5	Were ad-hoc queries addressed from the College to the Internal Audit Service during the year adequately dealt with?
6	Was the college informed of any material events during the course of the audit?
7	Were de-brief sessions timely and effective: were they attended by the Senior College Manager responsible and Client Manager and were all issues documented and agreed?



Appendix 2

Performance Indicators for the Financial Statements & Regularity Auditor (KPMG) 2011 / 2012 (2010 / 2011 Financial Statements)

Quantitative Performance Indicators

	Question	Target Set
1	Percentage attendance at Audit Committee Meetings.	100% attendance.
2	Turnaround of draft External Audit Findings Report following the de-brief meeting.	100% Draft External Audit Findings Report issued within 15 working days of the de-brief meeting.
3	Number of External Audit Findings Report / Control issue recommendations not accepted by the Senior Management Team following the issue of the draft report.	1 or less of the recommendations not accepted.
4	Planned audit cost against target audit cost, as agreed with the Audit Committee.	+ / - 5% of the agreed audit cost.
5	Turnaround of Finalised Financial Statements and External Audit Findings Report following agreement of draft reports by the College Management and Governors.	95% of all finalised reports received within 5 working days.
6	Deadline of reports submitted to the Clerk to the Corporation for the respective Audit Committee meetings.	90% of reports received within agreed deadline dates as set by the Assistant Principal - Marketing, Communication, Registry and Admissions & Clerk to the Corporation in liaison with the College Management Team.

Qualitative Performance Indicators

	Question
1	Was the Financial Statements Audit work planned appropriately?
2	Was the Regularity Audit work planned appropriately?
3	Did the skills and make-up of the team meet expectations and what staff continuity was there from previous visits?
4	Were written reports clear, concise and accurate?
5	Did the Financial Statements / Regularity Auditors deal with queries raised at the Audit Committee adequately?
6	Were ad-hoc queries addressed from the College to the Financial Statements / Regularity Auditors during the year adequately dealt with?
7	Was the college informed of any material events during the course of the audit?