

PRESENT: Piers White (Chair)
Ben Geeson
Shachi Patel
Kene Ibezi
Stephan John
Kate Ward

ALSO ATTENDING: Neil Blackmore (Clerk to the Governors)
Jo Bland, (Director of HR) from item 2
Chay Champness (Chief Operating Officer) from item 2
Beth Davey (RSM Tenon, Internal Auditor)
Dominic Blythe (Baker Tilly, External Auditor)
Jonathan Ericsson (Baker Tilly, External Auditor)

APOLOGIES Caroline Allen
Frances Wadsworth (Principal)

1 PRIVATE DISCUSSION - AUDITORS AND THE AUDIT COMMITTEE

The External Auditor stated that the management had been open and supportive during this first year of the contract. Some staff changes had created short-term impacts but these were resolved. The Internal Auditor agreed with this statement and noted that the finance team had sought additional guidance and feedback following their visit. Managers then joined the meeting.

2 APOLOGIES FOR ABSENCE

Apologies were noted as above.

3 DECLARATION OF INTEREST

There were no new declarations.

4 MINUTES OF THE MEETING HELD ON 23 MAY 2012

The minutes were agreed and signed as a true record.

4.1 Matters arising

There were none.

5 MEMBERSHIP

K Ibezi and K Ward were welcomed as new members. J Bland was also welcomed to contribute to the meeting in her capacity as a senior manager involved in risk.

6 INTERNAL AUDIT REPORTS

The reports were **RECEIVED**. The Internal Auditor outlined the Follow-Up Report, including the position on testing implementation of the recommendations of the previous Internal Auditor. Governors were concerned that Catering had remained an

issue over some years, and had in the past had been cited as having been addressed. The COO stated that a permanent Head of Division was now in place and believed that better follow-through will be effected. Governors requested that future Internal Audit review the progress of Catering. Governors asked about recommendations on the appraisal system. The Director of HR outlined steps taken to make it more robust. Governors asked about the percentage of departing staff attending exit interviews. The Director of HR stated that 65-75% would be a realistic positive target and would typically be held with a member of the HR department.

The Internal Auditor outlined the Assignment Report outcomes (Key Financial Controls – Amber with high-level recommendations; Strategic Planning – Amber with medium-level; Staff Utilisation – Amber with high-level; Governance – Green, no recommendations). The COO stated that some of the findings were disappointing, particularly controls on BACS and journals but these had been immediately addressed once the report had been received. A follow up audit was then commissioned which confirmed that this action had been effective. Changes to the Finance department staffing were also noted as a positive development. Governors asked if the COO was content that the bank mandating system was robust. The COO confirmed this was the case and cited his own involvement when appropriate.

Governors were concerned that a high proportion of employment contracts had not been signed until after the employee had commenced work with the College, noting that in other sectors, stronger controls exist to incentivise the same. The Internal Auditor stated that remedial action has been put in place using improved HR systems and this was described by the Director of HR. The HR Department had undergone significant staff change over two years but there was now thorough tracking of the return of contracts.

The COO reminded the Committee that the HR IT system implemented in 2009 was not fit for purpose and the Governing Body had been presented with a paper in October 2012 outlining the issues and seeking approval to contract Phase 3 to rectify the issues (see item 12). Governors asked for information on progress on the new HR system. The Director of HR stated that pre-preparation was taking place for the system build to start in January 2013.

The Internal Auditor outlined the Staff Utilisation report which had raised conflicts in MIS between the HR data and the staff utilisation report but noted good progress had been made in remedying the discrepancies. She also outlined the Strategic Planning and Governance Reports, which had lower-level or no recommendations respectively.

7 INTERNAL AUDIT ANNUAL REPORT

The report was **RECEIVED**. The Internal Auditor outlined the Internal Audit Assurance Statement (Governance – Green; Risk Management – Amber; Control – Amber) and the unqualified opinion in the report, despite any recommendations. The Chair noted the change of auditor provision in 2011-12 and commended the work that the COO had done to deliver a very low level of carried-forward recommendations, a significant improvement. The Chair asked the External Auditor if they were satisfied with the position given that MacIntyre Hudson were yet to supply opinion on the first part of 2011-12. They stated that they had no objection. The COO drew attention to an email from MacIntyre Hudson (included in the committee papers), suggesting they would provide assurance. The SFA has stated that they still require assurance for this part of the year so the COO would follow up with both MacIntyre Hudson and the SFA. The Chair offered his help in providing assurance to stakeholders. **ACTION:** COO.

The Committee then **RECOMMENDED** the Internal Audit Annual Report to the Governing Body.

8 FUNDER DATA AUDIT

The COO made an oral report. He referred members to historic data issues at the College and the qualified assurance in 2011-12. He was pleased to report that RSM Tenon recently undertook another audit and gave an unqualified opinion. This in turn had a major impact on the lifting of the Financial Notice to Improve, reported in the agenda. The final written report was not yet received by the College.

ACTION: The COO to circulate the final written report on data audit when received via the Clerk.

9 FINANCIAL STATEMENTS AUDIT: MANAGEMENT LETTER

The report was **RECEIVED**. The External Auditor noted the substantial improvement in the financial position of the College: the I&E account had moved from a deficit of £3.7m to a surplus of £1.3m (with an underlying surplus of £0.6m after adjustments) during a period of reduced income. He also noted the disaggregation of the Croydon Local Government Pension Scheme (LGPS) liability in respect of current and former staff of the College. In previous years the College has been advised that its share of the assets and liabilities of the scheme are not separately identifiable and consequently it has been accounted for as a defined contribution scheme. During the year, the College has been informed that its share of assets and liabilities can now be identified. Accordingly it has now been accounted for as a defined benefit scheme in line with FRS17 and these financial statements incorporate a prior-year adjustment to restate the comparatives to incorporate this in the year ended 31 July 2011 figures. The effect of the prior year adjustment is shown in the Statement of Recognised Gains and Losses. The effect on the income and expenditure account of the FRS17 adjustments for the year ended 31 July 2012 is £282k (2010/11: £445k).

He stated that corporations should not become overly concerned with FRS17 liabilities but should assess the consequences of how authorities may choose to manage any deficit in the pension fund. Governors however noted the inclusion of the deficit of over £18m and that it had increased by some £5m + over the last financial year. The External Auditor noted the overall unqualified audit opinion.

The COO outlined payments to LGPS: circa 42% of College staff were currently in the scheme funded at the rate of 13.1% of salary of currently enrolled members plus an annual lump sum of £700K to contribute toward the historic scheme deficit. The contribution to the fund deficit will be re-evaluated every few years and would, quite likely, increase. The COO stated that likely increases impact on the cash and current trading results of the College. By contrast, College academic staff normally belong to the Teachers' Pension Scheme which is unfunded and essentially underwritten by Government.

Governors asked about the scope and additional costs of auto-enrolment (NEST). The College is working on the basis that the vast majority of Croydon staff is in a pension scheme. Governors requested that management should make an analysis of the costs of auto-enrolment, which may still produce substantial additional costs for which the College should plan.

ACTION: The COO and Director of HR to make an analysis of the costs of auto-enrolment and report to F&R.

The External Auditor outlined reports on the Financial Reconciliation Statement (SFA), Fixed Assets, Restructuring, Going Concern and Funding, stating he had no further significant remarks to add to their opinion. The COO and the External Auditor outlined the position on the comment made about funds received over and above allocation. The External Auditor stated that the College had been prudent in its management of these funds and the Governors were satisfied with the approach being adopted.

Governors asked how the External Auditor planned to advise on emerging policy updates. The External Auditor stated that it was difficult to assess the correct time, particularly with potential upcoming changes (e.g. Audit Code of Practice, Regularity Audit), but they would attempt to report succinctly and usefully to future meetings. Governors directed Internal Audit to follow up the small number of items arising from the External Auditor's management report.

10 FINANCIAL STATEMENTS (FOR INFORMATION)

The report was **RECEIVED** for information. Fuller consideration and formal recommendation to the Governing Body takes place at F&R.

11 ANNUAL REPORT ON FRAUD

The report was **RECEIVED**. The COO outlined the scoping of fraud types (providing some examples of type) and known gaps in fraud-prevention effectiveness. RSM Tenon will be undertaking a fraud-prevention audit in 2013. Governors highlighted risks around segregation of duties and managers noted that much fraud prevention is based on a function having two members of staff to complete it. Governors asked about restrictions on Procurement cardholders. Managers outlined how restrictions are categorised or covered by internal mechanism. The Chair commended the strengthening of fraud-prevention processes described in the report.

The Committee then **RECOMMENDED** the Annual Report on Fraud to the Governing Body.

12 HR SYSTEM PROJECT UPDATE

The report was **RECEIVED**. The October Governing Body had asked for an update at this matter at Audit. This item had been largely covered at item 6. Governors asked about the proposed cap at Governing Body on supplier costs. The COO stated that payments would be modular, which will make the contract easier to manage within the cap and should the supplier not deliver then the College would not move to the next phase of work.

13 GOVERNANCE AND FINANCIAL MANAGEMENT REVIEW

The report was **RECEIVED**. The COO noted that this replaces the formal consideration of the FMCE, which is no longer required by the SFA. He also outlined recent consultancy work on PFA audit preparation. Governors queried whether this document, if no longer externally required, was too large a document to provide an effective tool for improving the control environment. Both Auditors outlined that as this has only recently become no longer required, a general approach across colleges has not emerged. Governors stated that such a review should be specific about areas the College wants to address and asked that triangulation of processes with internal audit reports to be borne in mind.

ACTION: The Chair and the COO to undertake further work on a template or mechanism for governance and financial management review. The Internal and External Auditors were asked to consider the provision of shorter and more useful templates in use elsewhere.

14 RISK MANAGEMENT ANNUAL REPORT

The report was **RECEIVED**. Governors asked that this report no longer refer to originating in 2002, as this was not relevant to the amount of work recently undertaken to strengthen it. The External Auditor suggested that the College's adoption of the Foundation Code of Governance also be added. This was agreed.

The Committee then agreed that the Risk Management Annual Report should be **RECOMMENDED** to the Governing Body.

15 RISK MANAGEMENT PLAN AND MAP

The report was **RECEIVED**. The COO outlined the development of the Legislative Codes Schedule. The COO outlined changes to risk (Red to Amber): Op 9; St2; St3; St5; and Rp1 which had gone from Amber to Red (re Ofsted inspection).

Governors stated that risks that remained red as a net risk needed to have some action to stop them atrophying as a net red risk. The College should continue to seek to address them. The COO stated that these generally reflected major sector issues, e.g. systemic decreases in numbers. Governors responded that the need to develop new markets then became a greater priority and noted that if student numbers were always an issue, more prudent budget assumptions might be necessary. The Chair commended the qualitative progress with this report.

ACTION: The Committee proposed that LQC consider those risks which remain net red risks to address gaps in mitigating actions; Executive to liaise with Chair of LQC and the Clerk.

16 AUDIT COMMITTEE ANNUAL REPORT/SELF-ASSESSMENT

The committee self-assessment was **RECEIVED**. The Chair welcomed comments from members and asked for the input of the Auditors. The External Auditor stated the usefulness of members having a clear sense of the purpose of the Committee and of the Audit Committee being specific in assessing the adequacy of systems and their controls.

ACTION: Members to make any further suggestions on self-assessment to the Chair or Clerk.

The draft Annual Report was **RECEIVED**. The Committee then **RECOMMENDED** the Audit Committee Annual Report to the Governing Body subject to any further comments by members within 7 days.

ACTION: Members to make suggestions on the Annual Report to the Chair or Clerk.

17 DATES FOR NEXT YEAR

The dates were noted. The Clerk noted that this year the Committee had been affected by the change of calendar week of the AoC Conference. The Clerk

proposed that the Committee consider changing the date of the meeting if it happened again. The Committee **RESOLVED** to do so.

18 ANY OTHER BUSINESS: PART A OF THE AGENDA

There was no other business.

19 DATE OF NEXT MEETINGS

2012/3 dates: Wed 27 February 2013 (3.30pm); Wed 15 May 2013 (4pm)

[The Clerk has moved the Part B section to these minutes. Original items remain confidential.]

PART B: MATTERS OF CONFIDENTIALITY

1 PRIVATE DISCUSSION WITH MANAGERS

The Auditors left the meeting. The COO stated that he was satisfied with the approaches thus far of both the Internal Auditor and the External Auditor. Governors concurred with this view.

2 PART B MINUTES OF THE MEETING HELD ON 23 MAY 2012

The minutes were agreed and signed as a true record.

The meeting then ended at 6.50pm.