



**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD ON MONDAY 13 OCTOBER 2008 AT 6.00 PM
VENUE: THE BOARD ROOM (B066)**

Present: Pat Thomas (*Chair*)
Phil McGrath
Vivien White

In attendance: David Whatley (*Bentley Jennison*)
Peter France (*Director of Finance and Information Services*)
Julie Wilkinson (*Clerk to the Corporation*)
Oona Cushen (*Minuting Secretary*)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Ainsley Cheetham and Joyce Tombs.

2. MINUTES OF THE MEETING HELD ON MONDAY 9 JUNE 2008

The minutes of the previous meeting held on 9 June 2008, paper LMC/A/21/08, were agreed as an accurate record and signed by the Chair.

3. MATTERS ARISING

Minute 4 – page 1

What safeguards were in place to ensure they maintain full independence and do not become too close to College staff?

David Whatley confirmed that the aspects of independence are set out in the Terms of Engagement Letter. There have also been several changes to their team members and partner/director that deal with the College. The college's auditors are not influenced by the Senior Management Team and base their work on the risk register.

As well as their own professional standards and overview by the external auditors, a private session for the Audit Committee can be arranged, as and when required.

It was, therefore, agreed that a private session should be arranged for the next Audit Committee meeting on 1 December 2008.

Action: Clerk to the Corporation to arrange a session with the auditors and the Audit Committee members only and include on the agenda for the 1st December meeting of the committee.

Minute 5 – Page 10

It was agreed at the last meeting that actions on recommendation are reported at each committee meeting, but this has not been included on this agenda as there is currently nothing to report.

Minute 9 – page 14

The Chair asked whether all the required maintenance work identified under the College's Fire Risk Assessment had been completed.

The Director of Finance and Information Services confirmed that all necessary works had been completed in priority order. The bulk of this work had been carried out in the construction block and other maintenance work is ongoing.

6.17pm Phil McGrath entered the meeting.

The Chair provided a summary of the discussions, so far, to Phil McGrath before proceeding with the meeting.

Minute 10 – Page 15

The Clerk confirmed that quotes had been requested from the Centre for Excellence for training sessions to be held at the College.

Also, the training programme from Centra will be published in the Spring.

4. TERMS OF REFERENCE OF THE AUDIT COMMITTEE

The Clerk referred Governors to paper LMC/A/22/08, the content of which had already been approved by the Corporation on 15th September.

The Committee noted and received the Terms of Reference of the Audit Committee, paper LMC/A/22/08.

5. ANNUAL REPORT OF THE AUDIT COMMITTEE

The Clerk referred Governors to paper LMC/A/23/08 and informed Governors that the format of this report is suggested by the Audit Code of Practice and is required to be reported to the Corporation. For the benefit of new members, the Chair asked the Director of Finance and Information Services to explain the difference of each type of audit:

Internal Audit

This is carried out by Bentley Jennison and is based on the Risk Register. The audit examines key parts of the College to ensure controls and procedures are in place. The audit has a rolling programme of reviews.

External Audit

This is carried out by Baker Tilly and is an audit of the annual accounts to ensure they are a true and fair view of the college performance. This audit also covers the controls and procedures relating to finance e.g. to spending and investment.

Regularity Audit

This is also carried out by Baker Tilly, after being introduced by the LSC to replace the ILR (student records) audit. Its main purpose is to ensure the government funding is being used in accordance with the purpose for which it was given. The LSC are currently reviewing this audit, which may be replaced by a shorter version of the ILR audit.

The Committee agreed the Annual Report, paper LMC/A/23/08, which was duly signed by the Chair and will be presented to the Corporation at its next meeting.

6. INTERNAL AUDIT ANNUAL REPORT

David Whatley referred governors to paper LMC/A/24/08 and highlighted the main issues:

- The internal audit work for the period from 1 August 2007 to 31 July 2008 was carried out in accordance with the Internal Audit Plan approved by the Audit Committee and the Corporation.
- It is designed to allow the auditors to make a statement on the adequacy and effectiveness of the College's risk management, control and governance processes.
- However, the report is only one form of assurance which should support the account statements and the auditors will also work with any external auditor e.g. Ofsted.
- The auditors are satisfied that sufficient internal audit work has been undertaken to allow them to draw a reasonable conclusion as to the adequacy and effectiveness of Lancaster and Morecambe College's risk management, control and governance processes. In their opinion, for the 12 months ended 31 July 2008, Lancaster and Morecambe College:
 - Has adequate and effective risk management processes;
 - Has adequate and effective control processes; and
 - Has adequate and effective governance processes

to manage the achievement of the organisation's objectives.

- The outcome of the 2007/08 review of the College's risk management systems provided substantial assurance over the controls in place with respect to high-level risk monitoring and awareness. Within the review, no recommendations were made to enhance the controls in place.
- A Governance audit, undertaken during 2006/07 resulted in substantial assurance and only one minor recommendation, demonstrating the effectiveness of the controls in place. Further assurance over governance processes has been provided through attendance at Audit Committee meetings and through the audits undertaken during 2007/08.
- Within the work undertaken during 2007/08 internal audit plan, there have been no audits where limited assurance has been provided over the systems and controls in place. There have also been no fundamental audit recommendations.
- The final Regularity Audit Opinion and the External Auditor's Management Letter for 2007/08 have not been published and, therefore, Bentley Jennison reserve the right to amend their annual opinion as a result of the final Regularity Audit Opinion and the External Auditor's Management Letter, once issued.
- The Follow-Up Review identified that good progress had been made in the implementation of the prior year's recommendations.
- During 2007/08, an advisory review, relating to Student Records Register Checks, was also undertaken.
- The opinion given on operational assurance is required by audit practice and areas can be graded as good, adequate or weak. The auditors have concluded that the policies, procedures and operation in place to:

	Good	Adequate	Weak
Establish and monitor the achievements 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 interests from losses of all kinds, including those from fraud, irregularity and corruption	✓		
Ensure that the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes	✓		

The reason for the adequate conclusion with respect to ensuring compliance with the College's policies, procedures, laws and regulations is derived from the results of the Prison Contract audit, which provided adequate assurance over the controls in place over the contract.

- The summary of conclusions and recommendations are listed below:
 - Risk Management - substantial assurance
 - Prison Contract – 6 'merits attention' and 2 'significant' recommendations providing adequate assurance
 - Student Records Learner Existence and Eligibility Key Controls – 1 'merits attention' recommendation providing substantial assurance
 - Student Records Train to Gain – 8 'merits attention' recommendations providing substantial assurance
 - Register Checks – an advisory report only
 - Follow Up – 1 'merits attention' and 1 'significant' recommendations providing good progress
 - Payroll – 1 'merits attention' recommendation providing substantial assurance
- The tables below show the College's performance for 2007/08 benchmarked against 2006/07.

Levels of Internal Audit Assurance

	Substantial	Adequate	Limited
2007/08	80%	20%	0%
2006/07	100%	0%	0%

Number of Internal Audit Recommendations

	Fundamental	Significant	Merits Attention
Average number per report 2007/08	0	0.20	3.20
Average number per report 2006/07	0	0.42	2.57

In conclusion, David Whatley informed the Audit Committee that Lancaster & Morecambe College had one of the highest scores possible. The reduction in substantial assurance is owing to the OLASS contract. The review of the Prison Contract is ongoing as 3 prisons were audited in 2007/08 and the remaining 3 prisons will be audited in 2008/09. Prior to this, the prisons had not been audited and, therefore, identified improvements can be made prior to this year's audit.

Governors agreed to recommend the Internal Audit Annual Report, paper LMC/A/24/08, to the Corporation for approval.

7. REGULARITY AUDIT QUESTIONNAIRE

The Director of Finance and Information referred governors to paper LMC/A/25/08 and highlighted the main issues:

- The questionnaire, which is for review and reference, had already been completed as preparation for the recent PFA Audit Inspection.
- Both the PFA Auditors and Baker Tilly Auditors have already reviewed the completed questionnaire.
- Barclays Wealth have advised the College to leave the investments where they are, as the fees for breaking the contract outweigh the current risk.
- Any recommendations will be reported by Baker Tilly in their management letter at the next Committee meeting.

Governors noted and received the Regularity Audit Questionnaire, paper LMC/A/16/08.

8. ANNUAL REPORT ON RISK MANAGEMENT

The Director of Finance and Information referred governors to paper LMC/A/26/08 and highlighted the main issues:

- The report provides a summary of the College's actions in respect of risk management throughout the year.
- The Risk Management Group meets 3 times per year with each department having their own risk registers. These are reviewed at each risk management meeting.
- Much work has been done on the Critical Incident Management Plan by Phil Holden (Estates Manager) and Louise Evans (Health and Safety Manager) and a test scenario will be carried out during this year.

Risk Register

The Director of Finance and Information Services gave a brief explanation of the Risk Register and how risk and priority is determined:

- The register is split into various sections with each section having a list of the key risks and the scoring relating to their impact on Financial (F), Reputational (R) and Probability (P). These are graded 1-3, with 1 being the lowest risk and 3 the highest.
- The overall score is calculated by adding (F) and (R) and multiplying by (P), which is the LSC recommended system. Governors requested that the formula and key is listed on the Risk Register.

Action: Director of Finance and Information Services to add key and formula for calculating risk to the Risk Register.

- Priority of risk is determined by this score and focus is on those with a significant higher score.
- For each risk listed, there is a short summary of the existing control, existing monitoring/reporting mechanism, whether these controls are adequate or whether additional controls are required. Each risk is then allocated to a lead person who is responsible for ensuring the deadlines are met for any controls specified.

Governors reviewed each of the significant risks in turn and highlighted several points:

- Item 2.3 – Failure to meet funding targets and/or other critical targets

Although the College believes the numbers are nearly on target, it is too early to give any accurate indication. 16-18 learner numbers are approximately the same as last year whilst adult learner numbers have increased. The LSC software has still not been received, so this is an estimate.

- Item 2.11 – Changes to the funding methodology adversely affect the College

The funding methodology has changed considerably this year. Learner numbers are converted into standard learner numbers based on the qualifications students are taking and the funding allocation is calculated as a function of the total standard learner numbers for the college. There is also an increased proportion of funding subject to claw back in year. Funding software has not yet been release by LSC making it difficult for the college to forecast its overall funding.

- Item 3.3 and 3.5 – Failure to recruit target numbers/ Failure to achieve target student retention rates

Ofsted commented that the results are not as good as they may have been.

- Item 3.12 – Failure to recruit staff in key areas e.g. construction

Measures are already in place to rectify the position but this is an ongoing problem.

- Item 5.1 – is the same as item 3.12 but repeated under a different section

- Item 5.4 and 5.5 – Failure to ensure that staff understand and support the College's targets and criteria for success/Failure to ensure effective lines of communication

The College feels there are inadequate controls in this area, following the results of the staff survey and plan to develop a Communication Strategy. There was a new staff survey carried out over the summer and the findings are due to be reported soon. Communication is a compliance issue and there is inconsistency across the College.

Governors felt that staff surveys should, therefore, be listed under the reporting mechanism.

Action: Director of Finance and Information Services to add staff surveys under the reporting mechanism for items 5.4 and 5.5.

- Item 7.1 – Implementation of the new EBS 4 CIS software causes a disruption in the production of management information

Additional controls required column should be marked with 'N'.

Action: Director of Finance and Information Services to amend Item 7.1 to show no additional controls are required.

- Although significant risks have been added to the Risk Register in relation to the Heysham M6 Link Road, the New Build Project will have its own Risk Register.

Governors agreed the Corporation has discharged its duties in respect of risk management and agreed to recommend the Annual Report on Risk Management, paper LMC/A/26/08 to the Corporation for approval.

9. FINANCIAL MANAGEMENT AND CONTROL EVALUATION (FMCE)

The Clerk referred Governors to paper LMC/A/27/08 and explained the key points:

- The FMCE will replace the Self Assessment Report Questionnaire (SARQ) and requires completing by December. This deadline may be extended to February by the LSC.
- Owing to the Ofsted inspection, the College has already completed the SARQ and will, therefore, have to complete both questionnaires this year.
- The FMCE has more focus on financial matters.
- The completed FMCE will come to Audit Committee for review.

Governors received and noted the Financial Management and Control Evaluation (FMCE), paper LMC/A/17/08.

10. FEEDBACK FROM INSPECTION/PFA (PROVIDER FINANCIAL ASSURANCE REVIEW (Oral Report)

This was a confidential report and has been minuted separately.

11. AUDIT COMMITTEE CALENDAR 2008/09 (Paper LMC/A/28/08 refers)

The Clerk referred Governors to paper LMC/A/28/08, which was distributed and explained that as the Audit Committee is a mandatory committee, there needs to be an annual calendar of business, which provides all the dates and times of the meetings and the items the Committee is required to review/discuss.

Governors received and noted the Audit Committee Calendar 2008/09, paper LMC/A/28/08.

12. ANY OTHER BUSINESS

None.

13. DATE(S) AND TIME(S) OF NEXT MEETING:

Monday 1 December 2008 at 6pm

The Committee agrees that these minutes are an accurate record of the meeting.

SIGNED:

NAME: Pat Thomas (*Chair*)

DATE:

CONFIDENTIAL ITEM FOR CORPORATION MEMBERS
UNTIL OFSTED REPORT PUBLISHED

**10. FEEDBACK FROM INSPECTION/PFA (PROVIDING FINANCIAL ASSURANCE REVIEW
(Oral Report)**

The Clerk provided a summary of the feedback received:

- Overall, it was a good report from the PFA Inspectors.
- There was only 1 weakness identified and this relates to student success rates, in line with the Ofsted feedback.
- There is also 1 'merits attention' recommendation relating to audit reports. Some audit reports, e.g. European, Work Based Learning, are provided direct to the departments and these need to be forwarded to the Audit Committee on a timely basis.
- A full report will be sent to the College in due course.