



Minutes of a meeting of the Audit Committee held on Tuesday 2 December 2008 at 5.00pm in room 3F099, York College

Present: Jim Clark (Chair)
David Jackson
David King
Andy Mendus

In Attendance: Trevor Armer, Director of Finance
Richard Hinde, Clerk to the Governing Body
Trevor Rees (KPMG) – Financial Statements /Regularity Auditor
Anne Tyrrell, Deputy Principal Resources
Ian Wallace (RSM Bentley Jennison) – Internal Audit Service

Action

08.30 Apologies for Absence / Declarations of Interest

a) Apologies and Declarations of Interest

Apologies were received from Hilary Crook. No declarations of interest were made. Andy Mendus was welcomed as a new member of the Audit Committee following recommendation by the Search & Governance Committee and exercise of Chair's action prior to formal Governing Body approval on 17 December 2008.

08.31 Minutes of Previous Meeting – 9 July 2008

The minutes of the meeting held on 9 July 2008 were approved as an accurate record and signed by the Chair.

08.32 Matters Arising

a) Action Summary Sheet

The Committee considered the action summary detailing actions taken. There were no other matters arising.

08.33 LSC Provider Financial Assurance (PFA) and Other Audit Reports

a) 2008 LSC PFA Review: Progress Report on the Action Plan on Framework Issues

The Director of Finance presented the report updating on progress against the recommendations made by the LSC Regional PFA team in January 2008 in relation to the College's financial management and governance. It was noted that these recommendations were only intended to identify areas of improvement for the College. The implementation of the College's action plan in response to the "framework" issues raised by the PFA team was considered and it was noted that all actions were now considered to have been completed.

b) 2007/08 Train to Gain (North East) Contract Review

The Director of Finance presented the report produced by the

LSC PFA team following their audit of the College's Train to Gain contract with the LSC's North East region. It was noted that the LSC had issued an unqualified opinion on the Use of Funds and Internal Controls for this contract.

c) 2007/08 Train to Gain (FE Means Business) Review

The Director of Finance presented an extract from the draft report produced by the LSC PFA team following their recent audit of the Train to Gain contract managed by Askham Bryan College on behalf of the FE Means Business Consortium of North Yorkshire FE Colleges. It was reported that York College delivered the larger part of this contract on behalf of the Consortium and the majority of records audited were for York College learners. The Principal of Askham Bryan College had confirmed that "the report from the most recent audit has not yet been finalised, though there are no issues with the York learners."

08.34 Internal Audit Reviews

a) 2007/08 Annual Internal Audit Report

Ian Wallace of the College's internal auditors, Bentley Jennison, presented the 2007/08 Internal Audit Annual Report which was considered by the Committee. It was noted that the internal auditors' opinion for the twelve months ended 31 July 2008 was that the College had "adequate and effective risk management processes, control processes and governance processes to manage the achievement of the organisation's objectives." It was explained that reviews had been carried out in a number of business areas. The opinions on the level of assurance were noted. One was "good", three were "substantial" and three were "adequate". The opinions on the level of operational assurance were "good" in six areas and "adequate" in one area. The Chair wished to record his view that the assessment of "adequate" for this one area was particularly harsh. Reference was also made to the benchmarking data in the report, and it was noted that this would become more comprehensive in future years. The Audit Committee **agreed to recommend** the Governing Body to approve the Internal Audit Annual Report 2007/08.

b) 2007/08 Internal Audit Recommendations Implementation

The Director of Finance presented the report summarising the progress made within College on the implementation of Bentley Jennison's audit recommendations made during 2007/08. It was noted that 48% of all recommendations had been fully implemented with a further 14% partially completed. It was explained that due to a number of significant staff absences, it had been necessary to prioritise the completion of these recommendations.

c) 2008/09 Internal Audit Progress Report

The Director of Finance presented the report outlining the work undertaken by the College's internal auditors, Bentley Jennison, in the current academic year. It was noted that as at 17 November 2008, no internal audit work had yet been undertaken. The work to date had concentrated on preparations for the first five scheduled audit reviews. These had been scheduled to take place in the weeks commencing 24 November 2008 and 1 December 2008.

08.35 2007/08 Financial Statements Audit

a) 2007/08 Final Management letter

Trevor Rees of the College's financial statements and regularity auditors, KPMG, presented the 2007/08 Management Letter which was considered by the Committee. Mr Rees explained that it was a very good report with a limited number of observations and that KPMG anticipated issuing an "unqualified" opinion in respect of both the financial statements and the regularity audit.

The Committee considered the differences identified during the course of the audit for which the financial statements had been adjusted. It was noted that these adjustments only affected the balance sheet of the College and had no impact on its result for the year. None were considered to have an impact on the understanding of the financial statements or the financial performance of the College, and as such were not deemed either material or significant. Mr Rees stressed the need for the College to ensure compliance with the banking covenants in its existing loan arrangements, to guard against the banks seeking to renegotiate loans on less favourable terms.

It was noted that the Finance & General Purposes Committee had already considered the Management Letter and that it would be presented to the Governing Body as part of its consideration of the College's financial statements.

b) 2007/08 Financial Statements Audit -York College

The Director of Finance presented the report and it was noted that recommendation of approval of the financial statements to the Governing Body was a role of the Finance and General Purposes Committee. However, the College had undertaken to ensure that the Audit Committee was aware of the opinions and the statements made by auditors, particularly the statement on corporate governance and internal control.

It was noted that for the period to 31 July 2008, the College generated an operating deficit of £1,296,000. This was after one-off revenue expenditure of £1,860,000 associated with the College's property and information strategies. If this

expenditure were excluded, the College would have achieved an underlying operating surplus of £564,000.

c) 2007/08 Financial Statements Audit - Pure Business Solutions Limited

The Committee considered the report and it was noted that the Financial Statements of Pure Business Solutions Limited had been approved at the Company's Annual General Meeting held on 20 November 2008.

08.36 Disclosures of Breaches of Law and Regulations, Fraud and Related Party Transactions

a) Fraud Risk Self Assessment 2007/08

The Director of Finance presented the report providing details of the College's second fraud risk assessment. It was noted that this had been prepared on the recommendation of KPMG as the College's financial statements auditors, and was in a format consistent with recommended good practice. Ian Wallace of Bentley Jennison suggested a number of further areas could be included and undertook to provide further information to the Director of Finance.

DF

b) Letter of Representation

The Director of Finance explained that the College was required to provide the financial statements auditors with a letter of representation before the auditors' report could be finalised. The purpose of the letter was to provide reassurance to the financial statements auditor on a number of material accounting issues. It was noted that the letter proposed was in the standard format. The Director of Finance explained that it was intended that the Chair of the Governing Body would sign the letter on behalf of the College but that he would also be signing in relation to the College's wholly-owned subsidiary, Pure Business Solutions Limited. In view of this a separate Letter of Representation relating to Pure Business Solutions Limited had been prepared and signed by the Chair of the Board of Directors and Company Secretary. The Audit Committee **resolved to recommend** the Chair of the Governing Body to sign the proposed Letter of Representation.

Chair/DF/Clerk

08.37 Review of Financial Statements and Regularity Auditors

a) 2007/08 Review of Performance

Consideration of this item was deferred until the end of the meeting.

b) External Audit Fees Benchmarking

The Director of Finance presented the report produced using LSC data to compare the College's external audit fees, in absolute terms and as a percentage of income, with those of other colleges. The Committee noted that based on this

information, the College's external audit fees as a percentage of income were not untypical for a college of its size. The fees charged by KPMG as a percentage of income were marginally below those charged to other clients of a similar size.

c) Re-appointment as External Auditors for 2008/09

Consideration of this item was deferred until the end of the meeting.

08.38 2007/08 Annual Risk Management Report

The Director of Finance presented the report providing a summary of risk management activity during the 2007/08 financial year together with conclusions made which would inform the recommendation to the Governing Body on the statement of corporate governance and internal control in the College's 2007/08 financial statements. It was explained that this was the last year that the report would be presented in this format as the College's risk management was now an intrinsic part of the College's Strategic Development Plan. Having considered the report the Audit Committee **resolved to recommend** the Governing Body to approve the College's Risk Management Annual Report for 2007/08.

Clerk

08.39 Draft Annual Audit Committee Report

a) 2007/08 Annual Audit Committee Report

The Clerk to the Governing Body presented the draft Audit Committee Annual Report 2007/08 which was considered by the Committee. It was **agreed** that reference should be made to PriceWaterhouseCoopers' attendance at the first Audit Committee meeting of 2007/08; that amendment should be made to the actual number of internal audit days carried out; and that the position relating to financial misstatements should be clarified. Subject to inclusion of the agreed amendments, the Audit Committee **resolved to recommend** the Governing Body to approve the Audit Committee Annual Report 2007/08.

Clerk

08.40 Framework for Excellence

a) Financial Management Control Evaluation (FMCE) Background Information

The Director of Finance presented the report with extracts from recently published documents intended to help colleges to understand and meet their obligations under the LSC's Framework For Excellence. The Committee considered the documentation which, it was explained, was intended to help them understand how its approval of the Financial Management Control Evaluation would contribute to the College's overall Framework For Excellence grading.

b) Financial Management Control Evaluation

The Director of Finance presented the draft Financial

Management Control Evaluation (FMCE) that had been prepared within College. It was noted that the College had to submit the FMCE to the LSC by 12 December 2008 and that the Audit Committee had delegated authority from the last Governing Body meeting to consider and approve it. Members considered the FMCE and put forward a number of proposed amendments. It was **agreed** that the revised document would be issued to the Chair for further consideration. The Committee **resolved** to approve the College's Financial Management Control Evaluation, subject to incorporation of the agreed amendments, for signature by the Principal and submission to the LSC.

DF

DF/Principal

08.41 Additional Services with Audit Service Providers

The Director of Finance presented the report summarising the fees paid to the College's audit service providers for additional services provided by them during the twelve month period to 31 October 2008. The Committee noted that £5,288 had been paid to the College's former internal auditors, PriceWaterhouseCoopers, for a supplementary review of the College's 2007/08 Work Based Learning records. £8,196 had also been paid to KPMG for the provision of VAT advice in relation to the New College Project.

08.42 Any Other Business

Ian Wallace of Bentley Jennison observed that currently there weren't any private meetings scheduled between the College's auditors and members of the Audit Committee. It was reported that this was seen as good practice. The Committee considered the issue and **resolved** that in future all Audit Committee meetings should be scheduled to start at 4.45pm to allow private meetings between the auditors and Committee members to take place directly before the start of formal business at 5.00pm.

Clerk

08.43 Date of Next Meeting

Tuesday 17 March 2009 to commence at 4.45pm.

(Trevor Rees and Ian Wallace left the meeting at 6.30pm.)

08.37 Review of Financial Statements and Regularity Auditors (cont)

a) 2007/08 Review of Performance

The Director of Finance presented the report summarising the performance of KPMG as the College's financial statements and regularity auditors for 2007/08, which was considered by the Committee. The Committee **agreed** that the overall service provided by KPMG had been satisfactory.

c) Re-appointment as External Auditors for 2008/09
The Audit Committee **resolved to recommend** the Governing Body to re-appointment KPMG as the College's financial statements and regularity auditors for 2008/09.

The meeting closed at 6.40pm.

Signed(Chair):

Name:

Date: