

**Minutes of the meeting of the
Audit Committee
held on Tuesday 19th November 2013 at 8:00am
in the Boardroom, Matthew Boulton Campus**

Present:	Apologies:
Kathryn James (Chair)	
Taher Hussain (TH)	
Julie Jasper (JJ)	
Anthony McCourt (AMcC) (Items 1-7)	
Daali Wouhra (DW)	
In Attendance:	
David Beasley (Acting Clerk)	
Bob Pattni (Executive Director Finance & Resources) (BP)	
Clive Hill (Deputy Principal – Operations) (CH)	
Roger Minett (Executive Director) (RM) (Item 2b only)	
Richard Bacon (PWC) (RB) (Items 1-7)	
Ben Connor (BPC) (BC) (Items 1-7)	
Andy Argyle (KPMG) (AA) (Items 1-7)	
Zubair Limbada (KPMG) (ZL) (Items 1-7)	
Paul Oxtoby (Baker Tilly) (PO) (Items 4 & 5 only)	
Craig Wright (BDO) (CW) (Items 4 & 5 only)	

Welcome & Apologies for Absence

The Chair welcomed everyone to the meeting and particularly the new committee members. All Committee members were present.

Declarations of Interest

There were none save for those already declared in the Register of Interests.

Declarations of Irregularity

None declared.

Item 1 – Minutes of Meeting held on 11th June 2013

- 1.1 The Chair led the Committee through the minutes of the meeting held on 11th June 2013 and it was agreed that they were a true and accurate record of the meeting.

Matters Arising

Para 2.7 The Chair reminded members that at the June meeting it had been decided to select one risk and do a 'deep dive' and by doing so review the mitigation measures. As the Academic Standards & Quality Development Committee hadn't had an opportunity to review them yet, it had been agreed to defer the topic of success rates to the next meeting, and instead the quality improvement risk area (ref QI2) had been chosen for this meeting (see under Agenda item 2b below).

Para 3.3 BP said that there had been a debate at the June meeting on KPI reporting. He had put in place some work supported by PWC and it was planned to bring this to the next meeting.

Para 3.6 BP confirmed that the changes agreed to the Internal Audit Plan had been implemented.

Item 2a – Risk Register Update

2a.1 BP presented the latest Risk Register, saying that this was the top-level register containing the key College risks with their pre- and post-mitigation measures. He highlighted the current status of the risks related to the college merger (ref GM3), the UK Border Agency audit (GM7), the Marketing & PR Strategy (CS1) and Succession Planning (HR1).

2a.2 Governors asked for confirmation that the risks linked back to the corporate objectives and that each of the risks was owned within the management team; these assurances were provided. In response to the Chair, CH gave an update on the Harborne Academy new build (risk ref ECD1) saying that the new building had opened on time and that Phase 2 was on schedule. The Chair asked for the Committee's thanks to be passed on to John Starmer and the team.

2a.3 Governors asked how risks and issues related to the merger harmonisation and culture differences were being addressed and BP said that this was a difficult topic to measure but additional communications had been put into place and staff briefings were taking place across all campuses. CH added that faculties and support departments had been merged which was helping to encourage a single ethos across the College. Student meetings were also being held so that issues could be raised. In response to a question on the Property Strategy (ref ECD2), BP said that it had recently been updated and contained proposals in relation to site consolidation and development. CH advised that the Strategy had just been reviewed by the Finance, Business & Developments Committee and would be presented to the Corporation in December.

ACTION:

The risk register to be re-circulated after updating C2, C3 and GM3 as discussed.

APPROVAL:

The Committee noted the updated Risk Register and the related mitigation actions.

[It was agreed to defer Item 2b (Deep Dive on Quality Improvement) until later in the meeting]

Item 3 – Insurance Summary Report

3.1 BP presented the insurance report as prepared by Baker Tilly Insurance Services. The report covered the outcome of the work carried out to combine the BMet and Stourbridge College policies which had resulted in significant synergies and savings. He noted that the report was too detailed for the purpose of the Committee. The Chair agreed and said that the Audit Committee was concerned to be assured that the College was properly insured, and to understand if the cover was normalised or if there were any non-standard items or exceptions. She asked for a summary report to be presented to the Committee in future. BP said that the cover was better than was typical for this size of college as it covered aspects such as corporate manslaughter and learner exposure.

- 3.2 Governors asked how the insurance requirements were fed through to the college procedures, such as building maintenance, and BP confirmed that monthly inspections took place that resulted in remedial works where appropriate and he was content that these connections were in place. In response to a question on claims history and the merger, BP advised that BMet had a relatively low claims figure whereas that of Stourbridge was slightly higher as they had used lower claims thresholds. Governors agreed that whilst insurance was a topic that could be put on the IAS agenda, it was not critical at the present time

APPROVAL:

The Committee noted the report.

[CW from BDO and PO from Baker Tilly joined the meeting at this point.]

Item 4 – Internal Audit Reports 2012-13 (Stourbridge College)

- 4.1 The Chair welcomed the BDO and Baker Tilly representatives to the meeting. BP introduced the item by saying that the Committee could have seen Stourbridge's Internal Audit Report at its June meeting, but it was thought more productive to have all the Stourbridge reports related to 2012-13 reviewed at the same meeting. CW then took the Committee through BDO's Internal Audit Annual Report, noting that in doing so he would summarise the outcomes of the final block of internal audits as set out in the individual reports made available to members.
- 4.2 CW explained the basis on which the Stourbridge Internal Audit Plan had been formulated and then summarised the year's audit programme results, referring to the information set out in the report. In terms of the final block of audits covering IT Security and Quality Framework, whilst a small number of recommendations had been made, no fundamental weaknesses had been identified and in the case of the Quality Framework it was pleasing to report that several areas of good practice had been noted. Finally, the IAS had carried out the annual review of Risk Management and Governance, where for 2012-13 it had been agreed that the procedures adopted during the college merger would be an appropriate focus. CW said that they had found that good practice had been observed by the Corporation during the various merger-related activities as recorded in the BDO report. CW concluded by saying he was pleased to report that the overall results of the internal audit programme for the year had led to BDO issuing a clean audit opinion.
- 4.3 Governors welcomed the report and asked that the progress related to audit recommendations would be covered at the next meeting, including those raised on Stourbridge College.

APPROVAL:

The Committee agreed to recommend the approval of the Stourbridge College Internal Audit Annual Report by the Corporation.

ACTION:

Schedule a review of outstanding audit recommendations – BP.

Item 5 – External Audit Reports 2012-13 (Stourbridge College)

- 5.1 BP introduced the item by saying that Baker Tilly had audited the Stourbridge College accounts and carried out the annual regularity audit. The fact of the accounts being related, unusually, to a ten month period had meant some additional complexity and the accounts had adopted cessation accounting rules. However

Baker Tilly were experienced in such matters. PO then presented an overview of Baker Tilly's audit activities as set out in the report and accompanied by the draft Management Letter and Letter of Representation. He was pleased to report that in terms of the main audit no substantive issues had been identified and no control issues had been raised during the regularity audit. PO said that there just remained three outstanding points to clear:

- (1) confirmation from the SFA on the allocation of funding as related to the ten month period, likely to be in early December, but not expected to have a material impact on the draft figures;
- (2) resolution of the situation that the merger legal transfer agreement quoted 23:59 as the transfer time on 31st May, whereas other references quoted midnight, and this had an impact on the Stourbridge balance sheet at the end of the period;
- (3) evidence required to support the Executive's assertion that the liability for dilapidations related to the Advanced Technology Centre was created prior to the merger date.

5.2 PO and BP confirmed that they had agreed on the treatment of the figures arising from the situation of one of Stourbridge College's partners having gone into liquidation shortly after the merger. AA noted that KPMG needed to understand how the three outstanding points were resolved in case there was any resulting requirement to adjust the BMet Accounts.

5.3 Governors confirmed that they were happy to recommend approval of the draft Management Letter and Letter of Representation, subject to the resolution of the three remaining points. The Chair thanked BDO and Baker Tilly for their work for Stourbridge College over the past few years and for their support to this meeting. This sentiment was echoed by JJ, the Chair of the Stourbridge Corporation Audit Committee during 2012-13.

APPROVAL:

The Committee agreed to recommend the approval of the Stourbridge College External Audit Management Letter and Letter of Representation to the Corporation, subject to the resolution of the three outstanding points discussed at the meeting.

ACTION:

The three outstanding points related to the Stourbridge College accounts to be resolved – BP.

[CW and PO left the meeting at this point.]

Item 6 – Internal Audit Reports 2012-13 (BMet)

6.1 BP introduced the item, explaining that PWC had 2 internal audit reports and their annual report to present. BC then took the Committee through the reports of PWC's audits of Curriculum Planning and Student Data. He noted that a small number of audit recommendations had been made, but no significant concerns had been identified. He referred Governors to the reports for the details of the recommendations and also the areas of good practice that had been noted. Governors asked questions of PWC concerning the information in their reports and were content with the answers. It was noted that there would be a follow-up review of the status of audit recommendations at subsequent Committee meetings.

6.2 RB introduced himself as the replacement for Greg Wilson, as GW had recently been made a partner at PWC. RB then took the Committee through the Internal Audit Annual Report. He reported that overall the audit reports were all categorised as Low

Risk and consequently the College was in good shape, referring to the summary of the year's recommendations in the report. Governors were happy with the content of the report.

APPROVAL:

The Committee agreed to recommend the approval of the BMet Internal Audit Annual Report by the Corporation.

Item 7 – External Audit Reports 2012-13 (BMet)

- 7.1 BP introduced the item by saying that it had been an unusual year, with major releases from reserves, the merger and the need to use cessation accounting principles, as well as the consolidation of the Harborne Academy figures to produce the Group accounts. AA gave the Committee an overview of KPMG's view now that their audit was substantially complete; the remaining items were related to the post balance sheet review and the checking of the final statements. ZL then took the Committee through the KPMG report and draft Management Letter, noting the need to resolve the issues related to the Stourbridge College Financial Statements. He said that KPMG had followed the prescribed acquisition accounting method and rules using fair values for the assets transferred. ZL echoed the PWC findings and had no weaknesses to report. He then went through the report identifying the key points and Governors asked questions of clarification.
- 7.2 The Chair said that the Committee was interested in the whole process of harmonisation and how the risks and opportunities were being addressed. She asked the Executive to give some thought to how to keep Governors informed on this topic.
- 7.3 After asking a number of questions of KPMG on their audit activities and report content, Governors were content.

APPROVAL:

The Committee agreed to recommend the approval of the draft BMet External Audit Management Letter and Letter of Representation to the Corporation.

ACTION:

The Executive to update the Committee on the process for keeping Governors informed on the implementation of the merger harmonisation process.

[RM joined the meeting at this point.]

Item 2b – Risk Deep Dive, Quality Improvement

- 2b.1 RM was questioned about the risks associated with quality improvement and particularly the mitigating factors. RM discussed in some detail the potential impact upon the college of poor learner outcomes and most specifically success rates and achievements. RM pointed out that although the impact would be substantial he felt that the likelihood was lower now that the 2012/13 data had been completed and that all quality improvement systems were in place.
- 2b.2 The Committee asked what mitigating factors were in place and what the success rates are. RM explained the overall increase in success rates of over 5% for classroom based activity based upon the previous year and that the combined data sets of former SC and BMet institutions had demonstrated an increase in most SSA areas with the exception of 3 areas. The effect of this was that we would grade four departments at grade 1, 8 at grade 2 and 3 SSA areas at grade 3 and that overall this was a very good outcome for last year. This had occurred mostly as a result of

quality improvement systems at BMet and that the upward trend of the past 2/3 years had continued and at a more significant rate this year.

2b.3 Asked about mitigating factors and what had been the most significant actions that had led to this increase in success rates RM explained that there had been improvements in initial advice and guidance to ensure that the right students were selected for the right programmes suitable for their current level of attainment. RM also explained that the most significant factor was the instigation of programme monitoring boards and the challenge and forensic scrutiny that these boards had of directorate and course performance. These boards checked each course and monitored performance in year to ensure that the managers were taking all the educational initiatives that were possible to support students. This system was now fully embedded and each directorate carried out similar course monitoring at course level.

2b.4 However the improvement in success rates had not been as dramatic in all apprenticeship and workplace learning programmes. Whilst there had been significant improvements in the former BMet institution this had been negated by the former SC results. The Committee asked for the details of why the results could be affected so significantly. RM explained that at merger a company called CSCM went bankrupt and SC managers decided to take on the management of those learners. It was later reported that these learners had not received the instruction from the sub-contractor that they should have and that many of them had either failed or left employment and that this would affect the overall results. RM further explained that the SFA had been approached by himself to ask for permission to extend the end dates for some of these students so that we could attempt to support them and maximise both the course success rates and the achievements for those learners.

He reported that the SFA had agreed to this in order to help those learners. Asked about whether this was the only issue with apprenticeships and WBL RM said that it was the most significant example but that there were other examples that had reduced the overall success rates. RM also explained that to mitigate against poor performance this year all BMet quality improvement procedures would be implemented for WBL provision across all departments and that we were putting another BMet manager into the directorate to support the monitoring of partnerships. The Chair thanked RM for attending and presenting the topic.

[RM, AMcC, RB, BC, AA and ZL left the meeting at this point.]

Item 8 – Audit Committee Annual Reports 2012-13

8.1 The Chair explained that there were three 2012-13 Audit Committee Annual Reports in front of them as drafted by the Acting Clerk:

- (1) Harborne Academy, for information and good governance as they were an integral part of the Group Internal Audit programme and BMet was the Academy's Sponsor;
- (2) Stourbridge College, for completeness and good governance;
- (3) the BMet Report.

8.2 Governors were happy with the content of each of the reports. In respect of the view of the Stourbridge Corporation Audit Committee, JJ advised that there had been some audit work carried out in the area of partnerships, looking at the controls in place in overseeing the partners' activities and the associated risks. The Chair said that the issue of a contractor going into liquidation demonstrated the continuing challenge of achieving the appropriate balance between internal and partner delivery.

APPROVAL:

The Committee agreed to recommend the approval of the BMet and Stourbridge Audit Committee Annual Reports to the Corporation, subject to the update of the Stourbridge Report on the clearance of the three outstanding external audit issues.

Item 9 – Any Other Business

- 9.1 JJ asked if meetings of the Committee were held without the Executive present. The Chair said that these did take place if requested and the auditors were periodically reminded of the facility.
- 9.2 BP reported that the issue of the Stourbridge College partner going into liquidation had resulted in an impact on the final Stourbridge financial position and had been reported to the SFA. The College's primary concern was the impact on the students involved.
- 9.3 BP reported that the SFA had contacted the College regarding a complaint the SFA had received concerning use of funds. The Corporation Chair had looked into the allegation and replied to the SFA who were now content that there was no substance to the allegation and that no further action needed to be taken by the Executive.

The meeting closed at 11:00am.

Date of Next Meeting – Thursday 13th March 2014.

Signed.....*Kathryn James*.....Date.....*13/3/14*.....
Chair of the Audit Committee

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